

# 4

## PART

# Global Human Resources Management

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### PART OUTLINE

#### **Chapter 9**

Staffing, Training, and Compensation  
for Global Operations

#### **Chapter 10**

Developing a Global Management Cadre

#### **Chapter 11**

Motivating and Leading

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# Staffing, Training, and Compensation for Global Operations

## OUTLINE

*Opening Profile: Staffing Company Operations in Emerging Markets*

**Staffing for Global Operations**

*Under the Lens: Tata's Staffing Challenges in the United States*

**Managing Expatriates**

Expatriate Selection

Expatriate Performance Management

**Expatriate Training and Development**

Cross-cultural Training

Culture Shock

Subculture Shock

Training Techniques

Integrating Training with Global Orientation

Compensating Expatriates

**Training and Compensating Host-Country Nationals**

Training HCNs

*Management in Action: Success! Starbucks' Java Style Helps to Recruit, Train, and Retain Local Managers in Beijing*

Compensating HCNs

*Comparative Management in Focus: IHRM Practices in Australia, Canada, China, Indonesia, Japan, Latin America, Mexico, South Korea, Taiwan, and the United States*

**Conclusion**

*Summary of Key Points*

*Discussion Questions*

*Application Exercises*

*Experiential Exercise*

*Internet Resources*

*Case Study: Kelly's Assignment in Japan*

## OBJECTIVES

1. To understand the strategic importance to the firm of the IHRM function and its various responsibilities.
2. To learn about the major staffing options for global operations and the factors involved in those choices.
3. To appreciate the challenges involved in staffing operations in emerging market countries.
4. To emphasize the need for managing the performance of expatriates through careful selection, training, and compensation.
5. To discuss the role of host country managers and the need for their training and appropriate compensation packages.
6. To distinguish among various IHRM practices around the world.

## OPENING PROFILE: STAFFING COMPANY OPERATIONS IN EMERGING MARKETS<sup>1</sup>

In the 2012 Brookfield Global Relocation Trends Survey (GRTS), firms' HR Staff were asked to identify the top three countries that represented new assignment locations for them. They were: China (5 percent), India (4 percent), and Columbia, Russia and South Africa (3 percent). Those that were considered the most challenging for assigning people, as well as for the assignees, were China, India, Brazil and Russia.<sup>2</sup> However, distinction was made between relatively developed cities and less-developed locations in other areas of those countries.

In addition to the challenge of assigning and maintaining expatriates in emerging market economies, the ability to staff subsidiaries in emerging market economies with local managers has become a major challenge in the race for recruiting and retaining local talent. Emerging economies such as Brazil, Russia, India, and China have been developing so rapidly and have so attracted increasing overseas investment that they have outpaced the supply of suitable mid- and upper-level managers in their own markets. Foreign firms wishing to expand their investments in such economies are competing for what talent is available with both local companies and other global companies; however, they are falling behind the curve in not recognizing that they need different approaches than those they use domestically.

The problem is so acute that many companies have had to reconsider how fast they can expand in developing economies. A study by the McKinsey Global Institute predicts that 75,000 business leaders will be needed in China in the next ten years. It estimates the current availability at just 3,000 to 5,000, and that many of those are simply not at the skill level required by foreign companies.<sup>3</sup> According to *The Economist*:

*In a recent survey, 600 chief executives of multinational companies with businesses across Asia said a shortage of qualified staff ranked as their biggest concern in China and South-East Asia. It was their second-biggest headache in Japan (after cultural differences) and the fourth-biggest in India (after problems with infrastructure, bureaucracy and wage inflation).<sup>4</sup>*

Reasons for the shortage of upper-level managers vary by country. Research by Ready, et al. shows that while Brazil has an influx of new graduates available to staff at the low- to mid-management level, there is a deficit at the upper levels. In India there is also a surplus at the lower level, but a deficit starting at the middle levels; one additional explanation is the "brain drain," in particular in the technology industry. In Russia, there is a deficit at all management levels as a result of decades of operating under a planned economy, together with the great increase in demand by foreign companies. In China, there is a sizable surplus at the entry level—though of varying quality—but a considerable deficit at all levels up from there.<sup>5</sup>

Clearly the competition for talent has become global, as has the competition for jobs. The brain drain from emerging economies has contributed to the dearth of local talent available. Over a million Chinese went to the United States to study between 1978 and 2006, and 70 percent of them did not go back. Exacerbating the problem is the high turnover of those highly-sought managers, and, as a result of that, the escalating salary requirements.<sup>6</sup> For these reasons, the challenge to companies operating around the world is not only to recruit capable local managers, but also to be able to retain them. Advice from professionals includes "growing your own"—that is, to provide sufficient training and career mentoring to elicit loyalty with managers; and, in particular, to balance local human resource needs with global standards. This may require tailoring employment packages to local markets to attract and keep top talent, rather than applying global policies for the sake of global consistency.<sup>7</sup>

Ready et al. suggest a framework for attracting and retaining talent that recognizes that managers in developing markets are motivated by factors that are a function of their culture, business practices, and personal goals, and which are usually dissimilar to what is expected in the home office. They conclude that successful companies offer more than a good salary and that they comprise four distinguishing characteristics that provide meaning for potential recruits in emerging markets:<sup>8</sup>

1. **Brand:** that is, a global "name brand" known for its excellence and with a distinctive competence in a particular area, for example technology, in which new recruits would have confidence in their future.
2. **Purpose:** that is, a company that is breaking into new markets with new models and strategy, giving new employees a chance to be part of something meaningful.
3. **Opportunity:** that is, a company that provides a fast-track training and career path for new recruits.
4. **Culture:** that is, a company that has an organizational culture of openness and transparency for employees, with support for their work and career development.<sup>9</sup>

*We believe the war for talent will continue to be the major human resource issue to 2020, when the people pipeline looks to be the most crucial variable separating winners and losers in the marketplace. . . . Global mobility will play a key role in solving the labor availability conundrum.*

THE 2011 PRICEWATERHOUSECOOPERS' 14<sup>TH</sup>  
ANNUAL CEO SURVEY.<sup>10</sup>

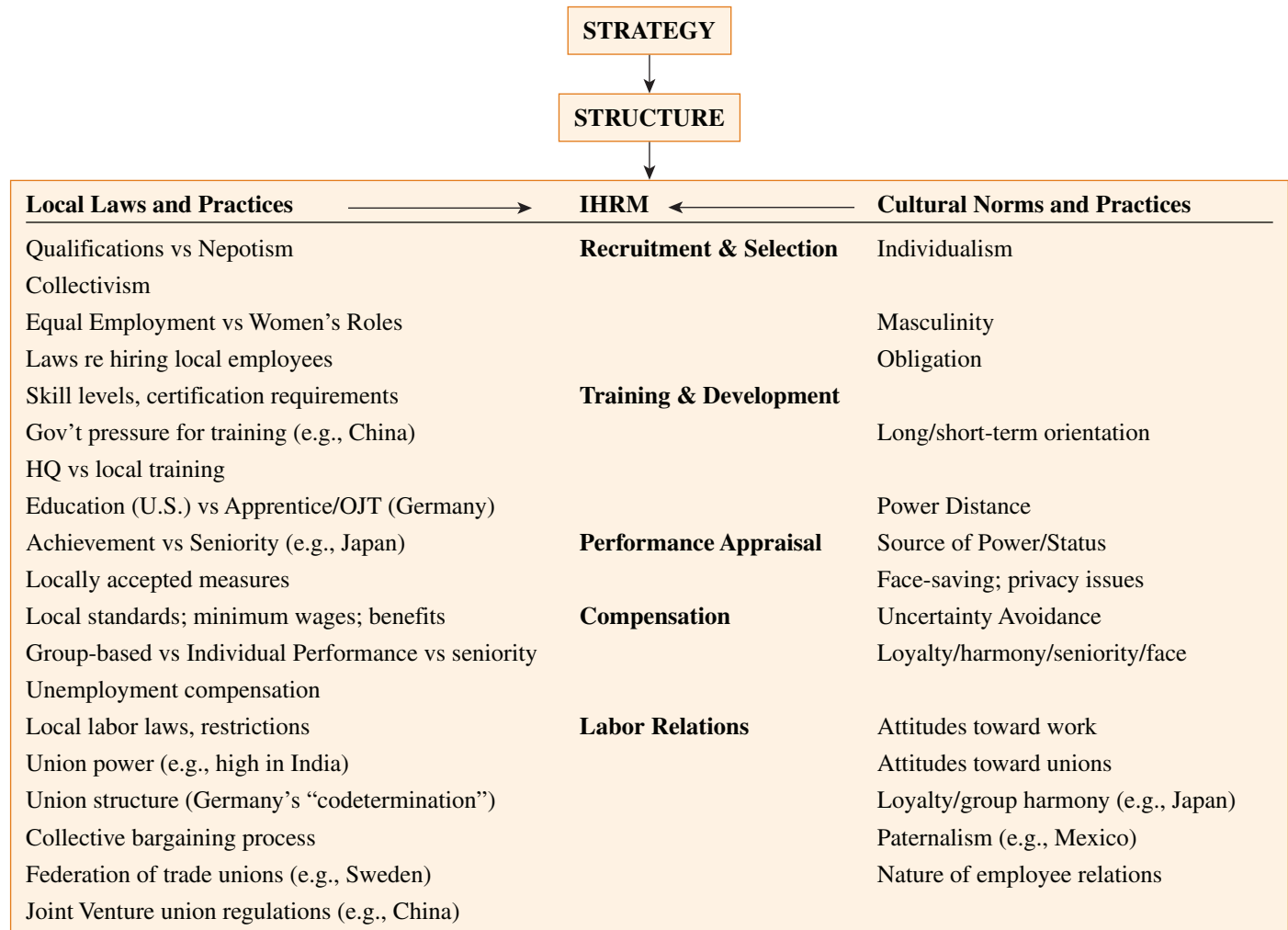
This chapter's opening profile describes the challenges involved in assigning, recruiting and retaining suitable managers to staff operations in emerging markets, where the burgeoning demand by both foreign and local companies is outstripping the supply. Other challenges for companies around the world include growing workforce mobility and the increasing trend of outsourcing employees because service and professional jobs have now joined manufacturing jobs in the category of "boundaryless" human capital (discussed in previous chapters).

The need to outsource employees is just one of the complex issues for international human resource (IHR) managers as they seek to support strategic mandates (see Chapter 6). Global firms are finding that their practices of outsourcing skilled and professional jobs have implications for their human resource practices at home and around the world. Consequently, a firm such as Infosys, one of India's top outsourcing companies, also experiences complex human resource challenges involved in recruiting, training, and compensating increasingly sophisticated employees in its attempt to meet the escalating demand for its services; in addition, Infosys has the same challenges with its operations abroad.

It is clear, then, that a vital component of implementing global strategy is *international human resource management* (IHRM). Executives questioned about the major challenges the HR function faces in the global arena cited: "1) Enhancing global business strategy; 2) aligning HR issues with business strategy; 3) designing and leading change; 4) building global corporate cultures; and 5) staffing organizations with global leaders."<sup>11</sup> IHRM is therefore increasingly being recognized as a major determinant of success or failure in international business. In a highly competitive global economy, where the other factors of production—capital, technology, raw materials, and information—are increasingly able to be duplicated, "the caliber of the people in an organization will be the only source of sustainable competitive advantage available to U.S. companies."<sup>12</sup> Corporations operating overseas need to pay careful attention to this most critical resource—one that also provides control over other resources. In fact, increasing recognition is being given to the role of *Strategic Human Resource Management* (SHRM)—that is, the two-way role of HRM in both helping to determine strategy as well as to implement it. That role in helping the organization to develop the necessary capabilities to be able to enact the desired strategy includes the reality that strategic plans are developed in large part based on the resources possessed by the firm, including the human resources capabilities.<sup>13</sup> IBM is one company that clearly uses its global workforce to convey and implement its strategy of a globally integrated company—doing business with clients in whatever location is appropriate, rather than in its previous structure of 160 subsidiaries.<sup>14</sup> As of 2011, IBM had 426,751 employees worldwide; the majority of those are in countries such as India, Japan, Britain, and Brazil. The company uses various staffing modes and considers international assignments important to its goal of global integration.

The IHRM function comprises varied responsibilities involved in managing human resources in global corporations, including recruiting and selecting employees, providing preparation and training, and setting up appropriate compensation and performance management programs. While firms would like to be able to harmonize their IHRM practices around the world, there are considerable and powerful variables that confound that goal, making it either impractical or undesirable for many localities. Among these are the complexities of local government laws and regulations, varying cultural norms and practices, as well as the long-entrenched and accepted business practices in the local area. Some examples are shown in Exhibit 9-1. These factors, in turn, are influenced by national variables in the political, economic, legal, and institutional arena as well as by competitive factors.

Of particular importance to the IHRM function is the management of **expatriates**—employees assigned to a country other than their own. An overview of those functions is provided here, while further IHRM challenges in developing a global management cadre and working within host-country practices and laws are discussed in the following chapter.

**EXHIBIT 9-1** Influences on Local HRM Practices

At the first level of planning, decisions are required on the staffing policy suitable for a particular kind of business, its global strategy, and its geographic locations. Key issues involve the difficulty of control in geographically dispersed operations, the need for local decision-making independent of the home office, and the suitability of managers from alternate sources.

The interdependence of strategy, structure, and staffing is particularly worth noting. Ideally, the desired strategy of the firm should dictate the organizational structure and staffing modes considered most effective for implementing that strategy. In reality, however, there is usually considerable interdependence among those functions. Existing structural constraints often affect strategic decisions; similarly, staffing constraints or unique sets of competences in management come into play in organizational and sometimes strategic decisions. It is thus important to achieve a system of fits among those variables that facilitates strategic implementation.

## STAFFING FOR GLOBAL OPERATIONS

*Over half of CEOs were planning to send more staff on international assignments in 2011. The number of international assignments among multinationals increased 25% over the past decade; we forecast a further 50% growth over the next one.<sup>15</sup>*

THE 2011 PRICEWATERHOUSECOOPERS' 14<sup>TH</sup>  
ANNUAL CEO SURVEY

*Globalization in the 21st century has resulted in an even higher demand for businesses to send the right talent to the right place at the right time.*

KPMG 2012 GLOBAL ASSIGNMENT SURVEY<sup>16</sup>

WWW.KPMG.COM.

Despite concerns over the weaker global economy and the costs of international assignment programs, international assignments remain on the upswing, according to the results of the Price-waterhouseCoopers' CEO Survey. Those executives made it clear that when competing in global markets, global experience and expertise are critical to the success of the organization and employee. Colgate, for example, requires all new hires in its marketing field to have international experience.

In addition to the global war for talent, there are now considerable strategic competitive challenges for some firms regarding the need to: "(a) reduce and remove talent in order to lower the costs of operations; (b) locate and relocate operations around the world; and (c) obtain equally competent talent anywhere in the world at lower wages."<sup>17</sup>

The traditional options available to the firm for managerial staffing abroad are discussed below. However, we see trends toward more flexible assignment policies for expatriates: an increase in short-term assignments of less than 12 months, with 81 percent using this option; commuter assignments—assignments where employees work in a different country than where they reside—were utilized by 22 percent of the companies surveyed by KPMG, especially in European-headquartered companies in order to take advantage of improved mobility within the European Union.<sup>18</sup>

Depending on the firm's primary strategic orientation and stage of internationalization, as well as situational factors, managerial staffing abroad falls into one or more of the following staffing modes—ethnocentric, polycentric, regiocentric, and global approaches. When the company is at the internationalization stage of strategic expansion, and has a centralized structure, it will likely use an **ethnocentric staffing approach** to fill key managerial positions with people from headquarters—that is, **parent-country nationals (PCNs)**. Among the advantages of this approach, PCNs are familiar with company goals, products, technology, policies, and procedures—and they know how to get things accomplished through headquarters. This policy is also likely to be used where a company notes the inadequacy of local managerial skills and determines a high need to maintain close communication and coordination with headquarters. For German companies, the most important reason for assigning expatriates was "to develop international management skills." For companies in Japan and the United Kingdom, it was "to set up a new operation," and in the United States it was "to fill a skill gap."<sup>19</sup>

Frequently, companies use PCNs for the top management positions in the foreign subsidiary—in particular, the chief executive officer (CEO) and the chief financial officer (CFO)—to maintain close control. PCNs are usually preferable when a high level of technical capability is required. They are also chosen for new international ventures requiring managerial experience in the parent company and where there is a concern for loyalty to the company rather than to the host country—in cases, for example, where proprietary technology is used extensively.

In addition, the strategic goal of understanding the needs and opportunities in emerging markets has led an increasing number of top-level executives, including board members and CEOs, to assign themselves to Asia. As an example, in 2011, John Rice, vice chairman of G.E. and president and chief executive of global growth and operations, relocated to Hong Kong with his wife. Saying his motives were part substance and part symbolism, Mr. Rice conceded that "Being outside the United States makes you smarter about global issues. It lets you see the world through a different lens."<sup>20</sup> He noted that he had learned more about China since moving there 18 months ago than he had in the 100 or so times he had visited before. According to a survey by the Economist Corporate Network, 45.3 percent of respondents expected to have board members in Asia by 2016.<sup>21</sup> Others in the survey noted that their continuing presence gave them more access to key leaders who regarded them as more committed to the region.

Generally speaking, however, there can be important disadvantages to the ethnocentric approach including (1) the lack of opportunities or development for local managers, thereby decreasing their morale and their loyalty to the subsidiary; and (2) the poor adaptation and lack of effectiveness of expatriates in foreign countries. Procter & Gamble, for example, routinely appointed managers from its headquarters for foreign assignments for many years. After several

unfortunate experiences in Japan, the firm realized that such a practice was insensitive to local cultures and also underutilized its pool of high-potential non-American managers.<sup>22</sup> Furthermore, an ethnocentric recruiting approach does not enable the company to take advantage of its worldwide pool of management skill. This approach also serves to perpetuate particular personnel selections and other decision-making processes because the same types of people are making the same types of decisions.

With a **polycentric staffing approach**, local managers—**host-country nationals (HCNs)**—are hired to fill key positions in their own country. This approach is more likely to be effective when implementing a multinational strategy. If a company wants to “act local,” staffing with HCNs has obvious advantages. These managers are naturally familiar with the local culture, language, and ways of doing business, and they already have many contacts in place. In addition, HCNs are more likely to be accepted by people both inside and outside the subsidiary, and they provide role models for other upwardly mobile personnel. For these and other reasons, this staffing policy is followed by Tata Consultancy Services (TCS) for some of its subsidiaries, as detailed in the accompanying Under the Lens section.

With regard to cost, it is usually less expensive for a company to hire a local manager than to transfer one from headquarters, frequently with a family, and often at a higher rate of pay. Transferring from headquarters is a particularly expensive policy when the manager and her or his family do not adjust and have to be prematurely transferred home. Rather than opening their own facilities, some companies acquire foreign firms as a means of obtaining qualified local personnel. Local managers also tend to be instrumental in staving off or more effectively dealing with problems in sensitive political situations. Some countries, in fact, have legal requirements that a specific proportion of the firm’s top managers must be citizens of that country.

One disadvantage of a polycentric staffing policy is the difficulty of coordinating activities and goals between the subsidiary and the parent company, including the potentially conflicting loyalties of the local manager. Poor coordination among subsidiaries of a multinational firm could constrain strategic options. An additional drawback of this policy is that the headquarters managers of multinational firms will not gain the overseas experience necessary for any higher positions in the firm that require the understanding and coordination of subsidiary operations.



## UNDER THE LENS

### *Tata’s Staffing Challenges in the United States<sup>23</sup>*

Tata Consultancy Services (TCS) provides IT services, business solutions, and outsourcing around the world. The Indian company, which sends thousands of employees abroad to work in client locations, is part of the Tata Group—one of India’s largest industrial conglomerates—and operates in 43 countries. For the fiscal year ending March 31, 2011, TCS had revenue of \$8.2 billion. In 2008, TCS decided to buy a facility in Milford, Ohio, to be closer to a number of Fortune 500 clients in the area, and also to hire American graduates from the several nearby universities. TCS’s strategy is to compete with consultancy giants such as IBM and Accenture on their home turf. Over half of TCS’s revenue is from North America, with about 16,000 employees. TCS was anxious to compete for the estimated \$52 billion in U.S. federal contracts. In 2011, TCS had 450 employees in Ohio, nearly all American, partly because of the difficulty of getting visas for Indians, and the company had plans to hire a further 500-plus, adding to its 215,000-strong global workforce.<sup>24</sup>

Factors affecting TCS’s staffing practices in the United States include the Ohio government’s ban in September 2010 of the outsourcing of government contracts to overseas operations, a protectionist move that sent a chill through the Indian outsourcing industry. This raised fears about continued access to outsourcing services in the U.S. because of concerns about unemployment among U.S. workers. The company had been suspended by the U.S. Embassy in 2010 for alleged irregularities in visa applications but was later reinstated to allow temporary U.S. work visas for employees. This issue no doubt triggered the tougher immigration regulations for foreign software engineers on short-term contracts who are being targeted as taking American jobs, as well as the difficulty in finding sufficient numbers of qualified engineers in the U.S. Even so, TCS faces a cost increase of around seven times for a U.S. worker compared with one hired to do similar work in India.

Clearly, the staffing challenges TCS faces in its U.S. subsidiary are just the tip of the iceberg for an IT company needing highly qualified employees around the world.

In the **global staffing approach**, the best managers are recruited from within or outside of the company, regardless of nationality. This practice—recruiting **third country nationals (TCNs)**—has been used for some time by many European multinationals. Now, HRM professionals everywhere are realizing that . . .

*. . . the emergence of a global talent pool following China and India's decade of growth will increasingly influence talent development and acquisition.*

*ORGANIZATIONAL DYNAMICS (2011) 40, 246–254<sup>25</sup>*

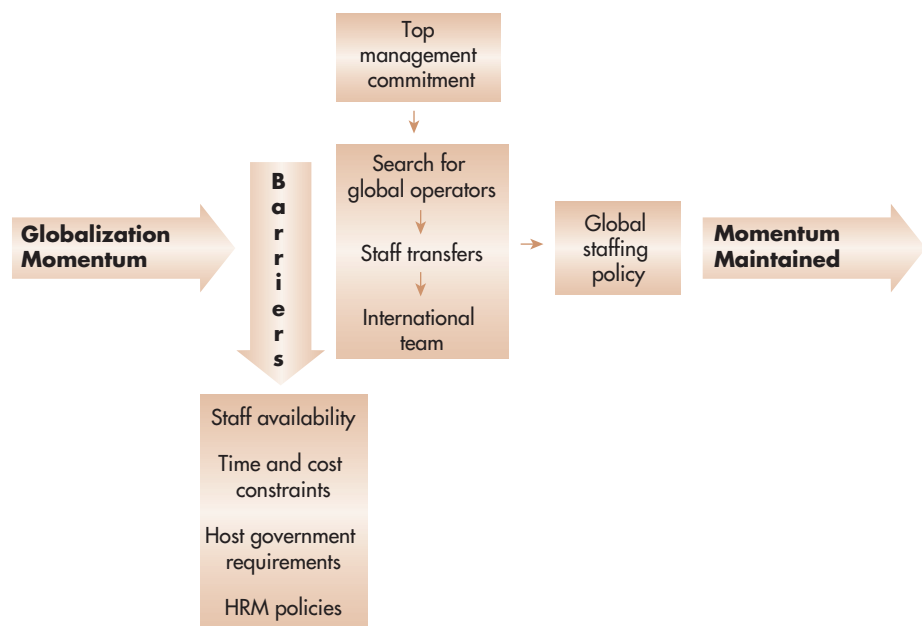
A global staffing approach has several important advantages. First, this policy provides a greater pool of qualified and willing applicants from which to choose, which, in time, results in further development of a global executive cadre. As discussed further in Chapter 10, the skills and experiences that those managers use and transfer throughout the company result in a pool of shared learning that is necessary for the company to compete globally.

Second, where third country nationals are used to manage subsidiaries, they usually bring more cultural flexibility and adaptability to a situation, as well as bilingual or multilingual skills, than parent-country nationals, especially if they are from a similar cultural background as the host-country coworkers and are accustomed to moving around. In addition, when TCNs are placed in key positions, they are perceived by employees as acceptable compromises between headquarters and local managers, and thus appointing them works to reduce resentment.

Third, it can be more cost-effective to transfer and pay managers from some countries than from others because their pay scale and benefits packages are lower. Indeed, those firms with a truly global staffing orientation are phasing out the entire ethnocentric concept of a home or host country. In fact, as globalization increases, terms such as *TCNs*, *HCNs*, and *expatriates* are becoming less common, because of the kind of situation where a manager may leave her native Ireland to take a job in England, then be assigned to Switzerland, then to China, and so on, without returning to Ireland. As part of that focus, the term **transpatriate** is increasingly replacing the term *expatriate*. Firms such as Philips, Heinz, Unilever, IBM, and ABB have a global staffing approach, which makes them highly visible and seems to indicate a trend.

Overall, firms still tend to use expatriates in key positions in host countries that have a less familiar culture and also in less-developed economies. Clearly, this situation arises out of concern about uncertainty and the ability to control implementation of the corporation's goals. However, given the generally accepted consensus that staffing, along with structure and systems,

**EXHIBIT 9-2** Maintaining a Globalization Momentum



Source: Based on and adapted from D. Welch, "HRM Implications of Globalization," *Journal of General Management* 19, no. 4 (Summer 1994): 52–69, used with permission of Braybrooke Press 2011.

must “fit” the desired strategy, firms desiring a truly global posture should adopt a global staffing approach. That is easier said than done. As shown in Exhibit 9-2, such an approach requires the firm to overcome barriers such as the availability and willingness of high-quality managers to transfer frequently around the world, dual-career constraints, time and cost constraints, conflicting requirements of host governments, and ineffective human resource management policies.

In a **regiocentric staffing approach**, recruiting is done on a regional basis—say, within Latin America for a position in Chile. This staffing approach can produce a specific mix of PCNs, HCNs, and TCNs, according to the needs of the company or the product strategy.

More recently a staffing option known as **inpatriates** has been utilized to provide a linking pin between the company’s headquarters and local host subsidiaries. Inpatriates are managers with global experience who are transferred to the organization’s headquarters country so that their overseas business and cultural experience and contacts can facilitate interactions among the country’s far-flung operations.<sup>26</sup>

*Because power will always reside at world headquarters, you have to “inpatriate” foreign executives if you want to ensure that those in leadership positions know and trust them.*

HARVARD BUSINESS REVIEW,  
SEPTEMBER 2010.<sup>27</sup>

Inpatriate managers can provide communication of strategic goals and change processes and provide continuity among revolving expatriates and host nationals; in addition, they can facilitate multicultural management teams in global organizations.<sup>28</sup> Nestlé, for example, brings in managers at all levels from around the world to its Swiss headquarters to ensure that its executives get acquainted with the firm’s best talent. The inpatriates are also happy to do this since they gain relationships all around and are able to network with one another, in addition to gaining the knowledge and familiarity with the firm’s headquarters people and processes.<sup>29</sup> Other companies that have brought inpatriate managers into their headquarters operations are Quaker Chemical Company (Guus Lobsen, Holland); Coca-Cola Co. (John Hunter, Australia); and Sara Lee Corporation (Cornelis Boonstra, Holland).

A critical success factor in the use of an inpatriate is the ability of that person to develop acceptance and trust among the people in the various locations, making it imperative for the firm to retain him or her on a long-term basis.<sup>30</sup> For her part, there is considerable challenge in that . . .

*“The inpatriate is expected to become a parent country manager in language and lifestyle, yet play a double role as a host country national when returning to her or his home country.”*

ORGANIZATIONAL DYNAMICS, 2010.<sup>31</sup>

Some of the pros and cons of the different staffing practices are shown in Exhibit 9-3.

*Foreign parent expatriates bring with them both the national and corporate culture of the parent, while third country nationals recruited by the foreign parent will likely bring the parent firm’s culture into the venture, but less of its national culture.<sup>32</sup>*

ODED SHENKAR, JOURNAL OF INTERNATIONAL BUSINESS,  
JANUARY 2012.

What factors influence the choice of staffing policy? Among them are the strategy and organizational structure of the firm, as well as the factors related to the particular subsidiary (such as the duration of the particular foreign operation, the types of technology used, and the production and marketing techniques necessary). Factors related to the host country also play a part (such as the level of economic and technological development, political stability, regulations regarding ownership and staffing, and the sociocultural setting).<sup>33</sup> Clearly, there are many complex factors and interactions to consider, as illustrated by the quote above. As a practical matter, however, the choice often depends on the availability of qualified managers in the host country. Most MNCs use a greater proportion of PCNs (also called expatriates) in top management positions, staffing middle and lower management positions with increasing proportions of HCNs (locals) as one moves down the organizational hierarchy. The choice of staffing policy has a considerable influence on organizational variables in the subsidiary, such as the locus of decision-making authority, the methods of communication, and the perpetuation of human resource management

**EXHIBIT 9-3** Key Advantages and Drawbacks of Global Staffing Practices

|                    | Advantages                                                                                                                                                                                                                                                                                                                                                                                         | Drawbacks                                                                                                                                                                                                                                             |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>PCNs</b>        | <ul style="list-style-type: none"> <li>• Transfer and control firm strategy</li> <li>• Assignments abroad develop managers</li> <li>• Integrate knowledge firm-wide</li> <li>• Suitable managers not available locally</li> <li>• Protect proprietary technology</li> </ul>                                                                                                                        | <ul style="list-style-type: none"> <li>• Costly to relocate family</li> <li>• Little development of HCNs</li> <li>• Lack local familiarity/contacts</li> <li>• PCN/family adaptation problems</li> <li>• Limits use of global skills/ideas</li> </ul> |
| <b>HCNs</b>        | <ul style="list-style-type: none"> <li>• Firm “acts local”; develops HCNs</li> <li>• Familiarity with culture, procedures, politics, language, contacts, laws</li> <li>• Fulfill government hiring requirements</li> <li>• Can hit the ground running vs PCNs</li> <li>• Likely to be less costly</li> <li>• Local role model; employee morale</li> <li>• Business may be more accepted</li> </ul> | <ul style="list-style-type: none"> <li>• May have short-term loyalty</li> <li>• Less firm-wide coordination</li> <li>• Possible conflict of interests</li> </ul>                                                                                      |
| <b>TCNs</b>        | <ul style="list-style-type: none"> <li>• Broad global experience</li> <li>• Pool of shared learning</li> <li>• Cultural flexibility and adaptability</li> <li>• Language skills</li> <li>• Often more acceptable than PCNs</li> <li>• Often less-costly transferees</li> <li>• Liaison between HQ and local firm</li> </ul>                                                                        | <ul style="list-style-type: none"> <li>• Little development of HCNs</li> <li>• May lack local contacts</li> <li>• Complex to manage and harmonize</li> <li>• Less acceptable than HCNs</li> <li>• Costly compared to HCNs</li> </ul>                  |
| <b>Inpatriates</b> | <ul style="list-style-type: none"> <li>• Linking pin between firm HQ and local host subsidiaries</li> <li>• Utilizes overseas experience and contacts to coordinate global operations</li> <li>• Provide continuity among revolving PCNs and HCNs.</li> <li>• Facilitate global multicultural teams</li> </ul>                                                                                     | <ul style="list-style-type: none"> <li>• Does not replace need for PCNs or HCNs</li> <li>• Probably still perceived as an HQ manager</li> <li>• Difficulty in gaining trust</li> </ul>                                                                |

practices. These variables are illustrated in Exhibit 9-4. The ethnocentric staffing approach, for example, usually results in a higher level of authority and decision making in headquarters compared to the polycentric approach.<sup>34</sup>

Without exception, all phases of IHRM should support the desired strategy of the firm. In the staffing phase, having the right people in the right places at the right times is a key ingredient to success in international operations. An effective managerial cadre can be a distinct competitive advantage for a firm.

The initial phase of setting up criteria for global selection, then, is to consider which overall staffing approach or approaches would most likely support the company's strategy, as previously discussed—such as HCNs for localization, the (multilocal) strategic approach, and transpatriates and inpatriates for a global strategy. These are typically just starting points using idealized criteria, however. In reality, other factors creep into the process, such as host-country regulations, stage of internationalization, and—most often—who is both suitable and available for the position. It is also vital to integrate long-term strategic goals into the selection and development process, especially when rapid global expansion is intended. Insufficient projection of staffing needs for global assignments will likely result in constrained strategic opportunities because of a shortage of experienced managers suitable to place in those positions.

A more flexible approach to maximizing managerial talent, regardless of the source, would certainly consider more closely whether the position could be suitably filled by a host-country

**EXHIBIT 9-4** Relationships Among Strategic Mode, Organizational Variables, and Staffing Orientation<sup>35</sup>

| Aspects of the Enterprise                        | Orientation                                                                |                                                                              |                                                                                                                  |                                                                                                                         |
|--------------------------------------------------|----------------------------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
|                                                  | Ethnocentric                                                               | Polycentric                                                                  | Regiocentric                                                                                                     | Global                                                                                                                  |
| Primary strategic orientation/stage              | International                                                              | Multidomestic                                                                | Regional                                                                                                         | Transnational                                                                                                           |
| Perpetuation (recruiting, staffing, development) | People of home country developed for key positions everywhere in the world | People of local nationality developed for key positions in their own country | Regional people developed for key positions anywhere in the region                                               | Best people everywhere in the world developed for key positions everywhere in the world                                 |
| Complexity of organization                       | Complex in home country; simple in subsidiaries                            | Varied and independent                                                       | Highly interdependent on a regional basis                                                                        | “Global Web”: complex, worldwide alliances/network                                                                      |
| Authority; decision                              | High in headquarters                                                       | Relatively low in headquarters                                               | High in regional headquarters and/or high collaboration among subsidiaries                                       | Collaboration of headquarters and subsidiaries around the world                                                         |
| Evaluation and control                           | Home standards applied to people and performance                           | Determined locally                                                           | Determined regionally                                                                                            | Globally integrated                                                                                                     |
| Rewards                                          | High in headquarters; low in subsidiaries                                  | Wide variation; can be high or low rewards for subsidiary performance        | Rewards for contribution to regional objectives                                                                  | Rewards to international and local executives for reaching local and worldwide objectives based on global company goals |
| Communication; information flow                  | High volume of orders, commands, advice to subsidiaries                    | Little to and from headquarters; little among subsidiaries                   | Little to and from corporate headquarters, but may be high to and from regional headquarters and among countries | Horizontal; network relations; “virtual” teams                                                                          |
| Geographic identification                        | Nationality of owner                                                       | Nationality of host country                                                  | Regional company                                                                                                 | Truly global company, but identifying with national interests (“glocal”)                                                |

national, as put forth by Tung, based on her research.<sup>36</sup> This contingency model of selection and training depends on the variables of the particular assignment, such as length of stay, similarity to the candidate’s own culture, and level of interaction with local managers in that job. Tung concludes that the more rigorous the selection and training process, the lower the failure rate.

The selection process is set up as a decision tree in which the progression to the next stage of selection or the type of orientation training depends on the assessment of critical factors regarding the job or the candidate at each decision point. The simplest selection process involves choosing a local national because minimal training is necessary regarding the culture or ways of doing business locally. However, to be successful, local managers often require additional training in the MNC company-wide processes, technology, and corporate culture. If the position cannot be filled by a local national, yet the job requires a high level of interaction with the local community, careful screening of candidates from other countries and a vigorous training program are necessary.

Most MNCs tend to start their operations in a particular region by selecting primarily from their own pool of managers. Over time, and with increasing internationalization, they tend to move to a predominantly polycentric or regiocentric policy because of (1) increasing pressure (explicit or implicit) from local governments to hire locals (or sometimes legal restraints on the use of expatriates) and (2) the greater costs of expatriate staffing, particularly when the company has to pay taxes for the parent-company employee in both countries.<sup>37</sup> In addition, in recent years, MNCs have noted an improvement in the level of managerial and technical competence in many countries, negating the chief reason for using a primarily ethnocentric policy in the past. One researcher's comment represents a growing attitude: "All things being equal, a local national who speaks the language, understands the culture and the political system, and is often a member of the local elite should be more effective than an expatriate alien."<sup>38</sup> However, concerns about the need to maintain strategic control over subsidiaries and to develop managers with a global perspective remain a source of debate about staffing policies among human resource management professionals. A globally oriented company such as ABB (Asea Brown Boveri), for example, has 500 roving transpatriates who are moved every two to three years, thus developing a considerable management cadre with global experience.<sup>39</sup>

For MNCs based in Europe and Asia, human resource policies at all levels of the organization are greatly influenced by the home-country culture and policies. For Japanese subsidiaries in Singapore, Malaysia, and India, for example, promotion from within and expectations of long-term loyalty to and by the firm are culture-based practices transferable to subsidiaries. At Matsushita, however, selection criteria for staffing seem to be similar to those of Western companies. Its candidates are selected on the basis of a set of characteristics the firm calls SMILE: specialty (required skill, knowledge); management ability (particularly motivational ability); international flexibility (adaptability); language facility; and endeavor (perseverance in the face of difficulty).<sup>40</sup>

## MANAGING EXPATRIATES

*The survey identified three significant challenges facing corporations: finding suitable candidates for assignments, helping employees—and their families—complete their assignments, and retaining these employees once their assignments end.*<sup>41</sup>

An important responsibility of IHR managers is that of managing expatriates—those employees who they assign to positions in other countries—whether from the headquarters country or third countries. Most multinationals underestimate the importance of the human resource function in the selection, training, acculturation, and evaluation of expatriates. The 2011 PricewaterhouseCoopers Survey found that CEOs anticipate a 50 percent increase in overseas assignments in the next decade. However, while the number of employers sending staff abroad is on the rise, only half actually have policies in place to govern these assignments, research shows.

### Expatriate Selection

The selection of personnel for overseas assignments is a complex process. The criteria for selection are based on the same success factors as in the domestic setting, but additional criteria must be considered, relative to the specific circumstances of each international position. Unfortunately, many personnel directors have a long-standing, ingrained practice of selecting potential expatriates simply on the basis of their domestic track records and their technical expertise.<sup>42</sup> The need to ascertain whether potential expatriates have the necessary cross-cultural awareness and interpersonal skills for the position is too often overlooked. In their research of 136 large MNCs based in four countries—Germany, Japan, the United Kingdom, and the United States—Tungli and Peirperl examined the differences in frequency of using various selection criteria for expatriates, though of course they are not mutually exclusive criteria. While MNCs from all four countries highly rated "Technical/professional skills," the highest score for the German companies was the expatriate's willingness to go (let's assume that's a relative term, since presumably all those being considered must be willing to go); for the Japanese sample, it was "experience in the company," reflecting their traditional long-term employment contract. It is interesting to note, also, that "personality factors," which seems the closest "cultural adaptability" test, was given a far lower rating in the United States companies than those in Japan.<sup>43</sup>

Research by Mansour Javidan points to three major global mind-set attributes that successful expatriates possess:

- Intellectual capital, or knowledge, skills, understanding, and cognitive complexity.
- Psychological capital, or the ability to function successfully in the host country through internal acceptance of different cultures and a strong desire to learn from new experiences.
- Social capital, or the ability to build trusting relationships with local stakeholders, whether they are employees, supply chain partners, or customers.<sup>44</sup>

It is also important to assess whether the candidate's personal and family situation is such that everyone is likely to adapt to the local culture. Studies have shown there are five categories of success for expatriate managers: job factors, relational dimensions such as cultural empathy and flexibility, motivational state, family situation, and language skills. However, deciding before the expatriate goes on assignment whether he or she will be successful in those dimensions poses considerable problems for recruitment and selection purposes. Whereas language skills, for example, may be easy to ascertain, characteristics such as flexibility and cultural adjustment—widely acknowledged as most vital for expatriates—are difficult to judge beforehand. Human Resource managers wish for ways to prejudge such capabilities of candidates for assignments in order to avoid the many problems and considerable expense that can lead to expatriate failure (discussed further in this chapter and the next).

In order to address the problem of predicting how well an expatriate will perform on an overseas assignment, Tye and Chen studied factors that HR managers used as predictors of expatriate success. They found that the greatest predictive value was in the expatriate characteristics of stress tolerance and extraversion, and less on domestic work experience, gender, or even international experience. The results indicate that a manager who is extraverted (sociable, talkative) and who has a high tolerance for stress (typically experienced in new, different contexts such as in a “foreign” country) is more likely to be able to adjust to the new environment, the new job, and interacting with diverse people than those without those characteristics. HR selection procedures, then, often include seeking out managers with those characteristics because they know there will be a greater chance for successful job performance, and a lesser turnover likelihood.<sup>45</sup>

These expatriate success factors are based on studies of American expatriates. One could argue that the requisite skills are the same for managers from any country—and particularly so for third-country nationals. A study of expatriates in China, for example, found that expatriate success factors included performance management, training, organizational support, willingness to relocate, and strength of the relationship between the expatriate and the firm.<sup>46</sup>

### Expatriate Performance Management

*While 89 percent of companies formally assess a candidate's job skills prior to a foreign posting, less than half go through the same process for cultural suitability. Even fewer gauge whether the family will cope.*<sup>47</sup>

Deciding on a staffing policy and selecting suitable managers are logical first steps, but they do not alone ensure success. When staffing overseas assignments with expatriates, for example, many other reasons, besides poor selection, contribute to *expatriate failure* among U.S. multinationals. A large percentage of these failures can be attributed to poor preparation and planning for the entry and reentry transitions of the manager and his or her family. One important variable, for example, often given insufficient attention in the selection, preparation, and support phases, is the suitability and adjustment of the spouse. The inability of the spouse to adjust to the new environment has been found to be a major—in fact, the most frequently cited—reason for expatriate failure in U.S. and European companies.<sup>48</sup> A Global Relocation Trends Survey found that 67 percent of respondents cited family concerns as the main cause for assignment failure. They cited spouse dissatisfaction as the primary reason, which they attributed to cultural adjustment problems and lack of career opportunities in the host country.<sup>49</sup> Yet only about half of those companies studied had included the spouse in the interviewing process. In addition, although research shows that human relational skills are critical for overseas work, most of the U.S. firms surveyed failed to

include this factor in their assessment of candidates.<sup>50</sup> The following is a synthesis of the factors frequently mentioned by researchers and firms as the major causes of expatriate failure:

- Selection based on headquarters criteria rather than assignment needs
- Inadequate preparation, training, and orientation prior to assignment
- Alienation or lack of support from headquarters
- Inability to adapt to local culture and working environment
- Problems with spouse and children—poor adaptation, family unhappiness
- Insufficient compensation and financial support
- Poor programs for career support and repatriation

After careful selection based on the specific assignment and the long-term plans of both the organization and the candidates, plans must be made for the preparation, training, and development of expatriate managers. In the following sections we discuss training and development and then compensation. However, it is useful to note that these should be components of an integrated performance management program, specific to expatriates, which includes goal setting, training, performance appraisal, and performance-related compensation.

Hsi-An Shih et al. conducted a study in which they interviewed expatriates and human resource professionals in global information technology companies headquartered in five different countries. These were Applied Materials (American) with 16,000 employees in 13 countries, Hitachi High Technologies (Japanese) with 470,000 employees in 23 countries, Philips Electronics (Dutch) with 192,000 employees in 60 countries, Samsung (Korean) with 173,000 employees in 20 countries, and Winbond Electronics (Taiwanese) with 47,000 employees in six countries. Shih et al. found that those companies used standardized forms from headquarters, rather than tailoring them to the host environment; as such they reflected the company culture but not the local culture in which those expatriates were operating. There also was lack of on-the-job training from those companies.<sup>51</sup> The differences in procedures for goal setting, performance appraisal, training, and performance-related pay among those five companies are detailed in Exhibit 9-5.

## EXPATRIATE TRAINING AND DEVELOPMENT

It is clear that preparation and training for cross-cultural interactions are critical. A Global Relocation Trends Survey revealed that attrition rates for expatriates were more than double the rate of non-expatriates. They found that 21 percent of expatriates left their companies during the assignments, and another 23 percent left within a year of returning from the assignment.<sup>52</sup> Moreover, about half of those who remain longer in their overseas assignment function at a low level of effectiveness. The direct cost alone of a failed expatriate assignment is estimated to be from \$200,000 to \$1.2 million. The indirect costs may be far greater, depending on the expatriate's position. Relations with the host-country government and customers may be damaged, resulting in a loss of market share and a poor reception for future PCNs.

Both cross-cultural adjustment problems and practical differences in everyday living present challenges for expatriates and their families. Examples are evident from a survey of expatriates in which they ranked the countries that presented the most challenging assignments to them, along with some pet peeves from their experiences:

**China:** a continuing problem for expatriates; one complained that at his welcome banquet he was served duck tongue and pigeon head.

**Brazil:** Expatriates stress that cell phones are essential because home phones don't work.

**India:** Returning executives complain that the pervasiveness of poverty and street children is overwhelming.

**Indonesia:** Here you need to plan ahead financially because landlords typically demand rent two to three years in advance.

**Japan:** Expatriates and their families remain concerned that, although there is excellent medical care, the Japanese doctors reveal little to their patients.<sup>53</sup>

**EXHIBIT 9-5** Expatriate Performance Management from MNEs of Five National Origins

| Company                         | Goal Setting                                                                            | Performance Appraisal                                                                                                                                      | Training and Development                                                                                                                                                           | Performance-related Pay                                                                                                                  |
|---------------------------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| <b>AMT<br/>(American)</b>       | Short-term: sending unit's general manager<br>Long term: host country's general manager | Annual performance appraisal<br>Open feedback<br>Interview                                                                                                 | Applied global university<br>Seldom take training programs while on assignment<br>No clear connection between performance result and career development                            | Clear link between performance and compensation<br>Cash bonuses and stock options                                                        |
| <b>Hitachi<br/>(Japanese)</b>   | Self-setting, then finalized by host-country manager                                    | Annually for managerial purposes, biannually for development purposes;<br>One-way feedback discussion<br>Seldom take training programs while on assignment | Orientation<br>Language training<br>Can apply to host location supervisor<br>No clear connection between performance result and career development                                 | Link between performance and compensation not clear<br>Seniority-based pay system<br>Cash bonuses                                        |
| <b>Philips<br/>(Dutch)</b>      | Self-setting, then finalized by host-country manager                                    | Biannual performance appraisal; Open feedback in interview                                                                                                 | Orientation<br>Seldom take training programs while on assignment<br>No clear connection between performance result and career development                                          | Clear link between performance and compensation<br>Cash bonuses and stock options                                                        |
| <b>Samsung<br/>(Korean)</b>     | Self-setting, then finalized by host-country manager                                    | Biannually for managerial purposes, annually for development purposes;<br>Open feedback in interview                                                       | Orientation<br>Language training<br>Can apply to host location supervisor<br>No clear connection between performance result and career development                                 | Clear link between performance and compensation<br>Senior managers: cash bonuses and stock options<br>Ordinary expatriates: cash bonuses |
| <b>Windbond<br/>(Taiwanese)</b> | Self-setting, then finalized by host-country manager                                    | Biannual performance appraisal;<br>Feedback depends on manager                                                                                             | Orientation<br>Seldom take training programs while on assignment<br>Can apply to host location supervisor<br>No clear connection between performance result and career development | Clear link between performance and compensation<br>Cash bonuses and stock options                                                        |

Source: Adapted from His-An Shih, Yun-Hwa Chiang, and In-Sook Kim, "Expatriate Performance Management from MNEs of Different National Origins," *International Journal of Manpower* 26, no. 2 (2005): 161–62. Reprinted with permission of Emerald Group Publishing Ltd, 2011.

Even though cross-cultural training has proved to be of high value in making the assignment a success, only 20 percent of companies surveyed had formal cross-cultural training for expatriates.<sup>54</sup> Much of the rationale for this lack of training is an assumption that managerial skills and processes are universal. In a simplistic way, a manager's domestic track record is used as the major selection criterion for an overseas assignment.

In most countries, however, the success of the expatriate is not left so much to chance. Foreign companies provide considerably more training and preparation for expatriates than U.S. companies. Therefore, it is not hard to understand why Japanese expatriates experience significantly fewer incidences of failure than their U.S. counterparts, although this may be partially because fewer families accompany Japanese assignees. Japanese multinationals typically have recall rates of below 5 percent, signifying that they send abroad managers who are far better prepared and more adept at working and flourishing in a foreign environment.<sup>55</sup> While this success is largely attributable to training programs, it is also a result of intelligent planning by the human resource management staff in most Japanese organizations, as reported by Tung.<sup>56</sup> This planning begins with a careful selection process for overseas assignments, based on the long-term knowledge of executives and their families. An effective selection process, of course, will eliminate many potential “failures” from the start. Another factor is the longer duration of overseas assignments, averaging almost five years, which allows the Japanese expatriate more time to adjust initially and then to function at full capacity. In addition, Japanese expatriates receive considerable support from headquarters and sometimes even from local divisions set up for that purpose. At NEC Corporation, for example, part of the Japanese giant’s globalization strategy is its permanent boot camp, with its elaborate training exercises to prepare NEC managers and their families for overseas battle.<sup>57</sup>

The demands on expatriate managers have always been as much a result of the multiple relationships that they have to maintain as they are of the differences in the host-country environment. Those relations include family relations; internal relations with people in the corporation, both locally and globally, especially with headquarters; external relations (suppliers, distributors, allies, customers, local community, etc.); and relations with the host government. It is important to pinpoint any potential problems that an expatriate may experience with those relationships so that these problems may be addressed during predeparture training. Problem recognition is the first stage in a comprehensive plan for developing expatriates. The three areas critical to preparation are cultural training, language instruction, and familiarity with everyday matters.<sup>58</sup> In the model shown in Exhibit 9-6, various development methods are used to address these areas during predeparture training, postarrival training, and reentry training. These methods continue to be valid and used by many organizations. Two-way feedback between the executive and the trainers at each stage helps to tailor the level and kinds of training to the individual manager. The desired goal is the increased effectiveness of the expatriate as a result of familiarity with local conditions, cultural awareness, and an appreciation of his or her family’s needs in the host country.

### Cross-cultural Training

Training in language and practical affairs is quite straightforward, but cross-cultural training is not; it is complex and deals with deep-rooted behaviors. The actual process of cross-cultural training should result in the expatriate learning both content and skills that will improve interactions with host-country individuals by reducing misunderstandings and inappropriate behaviors.

### CULTURE SHOCK

The goal of training is to ease the adjustment to the new environment by reducing **culture shock**—a state of disorientation and anxiety about not knowing how to behave in an unfamiliar culture. The cause of culture shock is the trauma people experience in new and different cultures, where they lose the familiar signs and cues that they had used to interact in daily life and where they must learn to cope with a vast array of new cultural cues and expectations.<sup>59</sup> The symptoms of culture shock range from mild irritation to deep-seated psychological panic or crisis. The inability to work effectively, stress within the family, and hostility toward host nationals are the common dysfunctional results of culture shock—often leading to the manager giving up and going home.

It is helpful to recognize the stages of culture shock to understand what is happening. Culture shock usually progresses through four stages, as described by Oberg: (1) *honeymoon*, when positive attitudes and expectations, excitement, and a tourist feeling prevail (which may last up to several weeks); (2) *irritation and hostility*, the crisis stage when cultural differences result in problems at work, at home, and in daily living—expatriates and family members feel homesick

**EXHIBIT 9-6** IHRM Process to Maximize Effectiveness of Expatriate Assignments

and disoriented, lashing out at everyone (many never get past this stage); (3) *gradual adjustment*, a period of recovery in which the “patient” gradually becomes able to understand and predict patterns of behavior, use the language, and deal with daily activities, and the family starts to accept their new life; and (4) *biculturalism*, the stage in which the manager and family members grow to accept and appreciate local people and practices and are able to function effectively in two cultures.<sup>60</sup> Many never get to the fourth stage—operating acceptably at the third stage—but those who do report that their assignment is positive and growth oriented. In recognition of the importance of helping expatriates adapt to the local environment, companies such as PepsiCo provide a number of localized programs to aid the transition. PepsiCo’s 600 expats and their families are encouraged to join the company’s health and wellness programs and various local sports programs such as soccer in Dubai, ping-pong in China, and Zumba in Latin countries. The company believes such activities help their people to adjust to the new culture and get involved in the local community. In addition, the company provides families language lessons and help with child tuition.<sup>61</sup>

### SUBCULTURE SHOCK

Similar to culture shock, though usually less extreme, is the experience of **subculture shock**. This occurs when a manager is transferred to another part of the country where there are cultural differences—essentially from what she or he perceives to be a “majority” culture to a “minority” one. The shock comes from feeling like an “immigrant” in one’s own country and being unprepared for such differences. For instance, someone going from New York to Texas will experience considerable differences in attitudes and lifestyle between those two states. These differences exist even within Texas, with cultures that range from roaming ranches and high technology to Bible-belt attitudes and laws and to areas with a mostly Mexican heritage.<sup>62</sup>

### Training Techniques

Many training techniques are available to assist overseas assignees in the adjustment process. These techniques are classified by Tung as (1) *area studies*, that is, documentary programs about the country’s geography, economics, sociopolitical history, and so forth; (2) *culture assimilators*, which expose trainees to the kinds of situations they are likely to encounter that are critical to successful interactions; (3) *language training*; (4) *sensitivity training*; and (5) *field experiences*—exposure to people from other cultures within the trainee’s own country.<sup>63</sup> Tung recommends using these training methods in a complementary fashion, giving the trainee increasing levels of personal involvement as she or he progresses through each method. Documentary and interpersonal approaches have been found to be comparable, with the most effective intercultural training occurring when trainees become aware of the differences between their own cultures and the ones they are planning to enter.<sup>64</sup>

Similarly categorizing training methods, Ronen suggests specific techniques, such as workshops and sensitivity training, including a field experience called the *host-family surrogate*, where the MNC pays for and places an expatriate family with a host family as part of an immersion and familiarization program.<sup>65</sup>

Most training programs take place in the expatriate’s own country prior to leaving. Although this is certainly a convenience, the impact of host-country (or in-country) programs can be far greater than those conducted at home because crucial skills, such as overcoming cultural differences in intercultural relationships, can actually be experienced during in-country training rather than simply discussed.<sup>66</sup> Some MNCs are beginning to recognize that there is no substitute for on-the-job training (OJT) in the early stages of the careers of those managers they hope to develop into senior-level global managers. Colgate-Palmolive—whose overseas sales represent two-thirds of its yearly revenue—is one company whose management development programs adhere to this philosophy. After training at headquarters, Colgate employees become associate product managers in the United States or abroad—and, according to John R. Garrison, then manager of recruitment and development at Colgate, they must earn their stripes by being prepared to country-hop every few years. In fact, says Garrison, “That’s the definition of a global manager: one who has seen several environments firsthand.”<sup>67</sup> Exhibit 9-7 shows some other global management development programs for junior employees.

#### EXHIBIT 9-7 Corporate Programs to Develop Global Managers

- ABB (Asea Brown Boveri) rotates about 500 managers around the world to different countries every two to three years in order to develop a management cadre of transpatriates to support their global strategy.
- PepsiCo has an orientation program for its foreign managers, which brings them to the United States for one-year assignments in bottling division plants.
- British Telecom uses informal mentoring techniques to induct employees into the ways of their assigned country; existing expatriate workers talk to prospective assignees about the cultural factors to expect ([www.FT.com](http://www.FT.com)).
- Honda of America Manufacturing gives its U.S. supervisors and managers extensive preparation in Japanese language, culture, and lifestyle and then sends them to the parent company in Tokyo for up to three years.
- General Electric likes its engineers and managers to have a global perspective whether or not they are slated to go abroad. The company gives regular language and cross-cultural training for them so that they are equipped to conduct business with people around the world ([www.GE.com](http://www.GE.com)).

**EXHIBIT 9-8** Stage of Globalization and Training Design Issues<sup>68</sup>

| Export Stage                                                                                                                                                                                                                                                                                                | MNC Stage                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>Training Need:</i> Low to moderate</p> <p><i>Content:</i> Emphasis should be on interpersonal skills, local culture, customer values, and business behavior.</p> <p><i>Host-Country Nationals:</i> Train to understand parent-country products and policies.</p>                                      | <p><i>Training Need:</i> High moderate to high</p> <p><i>Content:</i> Emphasis should be on interpersonal skills, two-way technology transfer, corporate value transfer, international strategy, stress management, local culture, and business practices.</p> <p><i>Host-Country Nationals:</i> Train in technical areas, product and service systems, and corporate culture.</p>                     |
| MDC Stage                                                                                                                                                                                                                                                                                                   | Global Stage                                                                                                                                                                                                                                                                                                                                                                                           |
| <p><i>Training Need:</i> Moderate to high</p> <p><i>Content:</i> Emphasis should be on interpersonal skills, local culture, technology transfer, stress management, and business practices and laws.</p> <p><i>Host-Country Nationals:</i> Train to familiarize with production and service procedures.</p> | <p><i>Training Need:</i> High</p> <p><i>Content:</i> Emphasis should be on global corporate operations and systems, corporate culture transfer, customers, global competitors, and international strategy.</p> <p><i>Host-Country Nationals:</i> Train for proficiency in global organization production and efficiency systems, corporate culture, business systems, and global conduct policies.</p> |

**INTEGRATING TRAINING WITH GLOBAL ORIENTATION**

In continuing our discussion of “strategic fit,” it is important to remember that training programs, like staffing approaches, should be designed with the company’s strategy in mind. Although it is probably impractical to break down those programs into a lot of variations, it is feasible to at least consider the relative level or stage of globalization that the firm has reached, because obvious major differences would be appropriate—for example, from the initial export stage to the full global stage. Exhibit 9-8 suggests levels of rigor and types of training content appropriate for the firm’s managers, as well as those for host-country nationals, for four globalization stages—export, multidomestic, multinational, and global. It is noteworthy, for example, that the training of host-country nationals for a global firm has a considerably higher level of scope and rigor than that for the other stages, and borders on the standards for the firm’s expatriates.

As a further area for managerial preparation for global orientation—in addition to training plans for expatriates and for HCNs separately—there is a particular need to anticipate potential problems with the interaction of expatriates and local staff. In a study of expatriates and local staff (inpatriates) in Central and Eastern European joint ventures and subsidiaries, Peterson found that managers reported a number of behaviors by expatriates that helped them to integrate with local staff, but also some that were hindrances (see Exhibit 9-9).<sup>69</sup> Clearly, this kind of feedback from MNC managers in the field can provide the basis for expatriate training and also help HCNs to anticipate and work with the expatriates in order to meet joint strategic objectives.

**Compensating Expatriates**

*If you’re an expatriate working alongside another expatriate and you’re being treated differently, it creates a lot of dissension.*

CHRISTOPHER TICE, MANAGER,  
GLOBAL EXPATRIATE OPERATIONS, DUPONT INC.<sup>70</sup>

The significance of an appropriate compensation and benefits package to attract, retain, and motivate international employees cannot be overemphasized. Compensation is a crucial link between strategy and its successful implementation: There must be a fit between compensation and the

**EXHIBIT 9-9** Factors That Facilitate or Hinder the Integration of Expatriate Staff with Local Staff

| Facilitates Integration                | Hinders Integration                     |
|----------------------------------------|-----------------------------------------|
| Relationship-building                  | Not using team concept                  |
| Speaking the local language            | Not learning local language             |
| Knowledge sharing                      | Withholding useful information          |
| Cultural adaptability/flexibility      | Spouse and family problems in adjusting |
| Respect                                | Superior and autocratic behavior        |
| Overseas experience                    | Limited time in assignment              |
| Develop local value-added from venture | Headquarters mentality                  |
| Encourage local innovation             | Dominate from head office               |

Source: Based on R. B. Peterson, *Journal of World Business* 38 (2003): 55–69. “The Use of Expatriates and Inpatriates in Central and Eastern Europe Since the Wall Came Down.”

goals for which the firm wants managers to aim. So that they will not feel exploited, employees need to perceive equity and goodwill in their compensation and benefits, whether they are PCNs, HCNs, or TCNs. The premature return of expatriates or the unwillingness of managers to take overseas assignments can often be traced to their knowledge that the assignment is detrimental to them financially and usually to their career progression. One company that recognizes the need for a reasonable degree of standardization in its treatment of expatriates is DuPont. The company has centralized programs in its Global Transfer Center of Expertise for its approximately 400 annual international relocations, so its expatriates know that everyone is getting the same package. The company seems to be on the cutting edge; however, a recent study by Mercer Human Resource Consulting found that “25 percent of multinational corporations do not have a benefits policy for globally mobile employees, 30 percent have no formal governance procedures and 11 percent have never reviewed their policies.”<sup>71</sup>

From the firm’s perspective, the high cost of maintaining appropriate compensation packages for expatriates has led many companies—Colgate-Palmolive, Chase Manhattan Bank, Digital Equipment, General Motors, and General Electric among them—to find ways to cut the cost of PCN assignments as much as possible. “Transfer a \$100,000-a-year American executive to London—and suddenly he [or she] costs the employer \$300,000,” explains the *Wall Street Journal*. “Move him to Stockholm or Tokyo, and he [or she] easily becomes a million-dollar [manager].”<sup>72</sup>

Firms try to cut overall costs of assignments by either extending the expatriate’s tour, since turnover is expensive—especially when there is an accompanying family to move—or to assign expatriates to a much shorter tour as an unaccompanied assignment.<sup>73</sup>

Designing and maintaining an appropriate compensation package is more complex than it would seem because of the need to consider and reconcile parent- and host-country financial, legal, and customary practices. The problem is that although little variation in typical executive salaries at the level of base compensation exists around the world, a wide variation in net spendable income is often present. U.S. executives may receive more in cash and stock, but they have to spend more for what foreign companies provide, such as cars, vacations, and entertainment allowances. In addition, the manager’s purchasing power with that net income is affected by the relative cost of living. The cost of living is considerably higher in most of Europe than in the United States. In designing compensation and benefit packages for PCNs, then, the challenge to IHRM professionals is to maintain a standard of living for expatriates equivalent to their colleagues at home, plus compensating them for any additional costs incurred. This policy is referred to as “keeping the expatriate whole.”<sup>74</sup>

To ensure that expatriates do not lose out through their overseas assignment, the **balance sheet approach**, or **home-based method**, (see Exhibit 9-10 for an example) is often used to equalize the standard of living between the host country and the home country and to add some compensation for inconvenience or qualitative loss.<sup>75</sup> However, recently some companies have begun to base their compensation package on a goal of achieving a standard of living comparable to that of host-country managers, which does help resolve some of the problems of pay differentials.

**EXHIBIT 9-10** The Balance Sheet Approach to Expatriate Compensation Package—  
Hypothetical Examples (Estimates in U.S. Dollars)

| Sample Components for Expat        | Chicago   | Tokyo     | Mexico City |
|------------------------------------|-----------|-----------|-------------|
| Base Salary + COLA                 | \$100,000 | \$150,000 | \$75,000    |
| Relocation Allowance (20%)         |           | 30,000    | 15,000      |
| Housing Allowance (20%)            |           | 30,000    | 15,000      |
| Private Education for two children |           | 30,000    | 20,000      |
| Two trips per year home for four   |           | 12,000    | 10,000      |
|                                    | \$100,000 | 252,000   | 135,000     |

Additional costs not estimated here include any local tax differential, health insurance, placement services for spouse, moving expenses and home sale, predeparture training and preparation, etc., as well as other negotiated items. In some “dangerous” locales, there will be additional costs pertaining to the safety of personnel, such as insurance, security guards, etc.

In fairness, the MNC is obliged to make up additional costs that the expatriate would incur for taxes, housing, and goods and services. The tax differential is complex and expensive for the company, and MNCs generally use a policy of tax equalization. This means that the company pays any taxes due on any type of additional compensation that the expatriate receives for the assignment; the expatriate pays in taxes only what she or he would pay at home. The burden of foreign taxes can be lessened, however, by efficient tax planning—a fact often overlooked by small firms. The timing and methods of paying people determine what foreign taxes are incurred. For example, a company can save on taxes by renting an apartment for the employee instead of providing a cash housing allowance. All in all, MNCs have to weigh the many aspects of a complete compensation package, especially at high management levels, to effect a tax equalization policy. The total cost to the company can vary greatly by location; for example:

*Expatriates in Germany may incur twice the income tax they would in the U.S., and they are taxed on their housing and cost-of-living allowances as well. This financial snowball effect is a great incentive to make sure we really need to fill the position with an expatriate.<sup>76</sup>*

Managing expatriate compensation is a complex challenge for companies with overseas operations. All components of the compensation package must be considered in light of both home- and host-country legalities and practices. Those components include:

**Salary:** Local salary buying power and currency translation, as compared with home salary; bonuses or incentives for dislocation

**Taxes:** Equalize any differential effects of taxes as a result of expatriate’s assignment

**Allowances:** Relocation expenses; cost-of-living adjustments (COLA); housing allowance for assignment and allowance to maintain house at home; trips home for expatriate and family; private education for children

**Benefits:** Health insurance; stock options.

The **localization**, or **going-rate, approach** pays the expatriate the going rate for similar positions in the host country, plus whatever allowances and benefits for the assignment that the manager negotiates. With the basic pay similar to other managers in the host country, no matter where they come from, there is less resentment and more opportunity for open cooperation. However, when the going rate in a location is less than that in the home country—which is likely the case for a U.S.-based expatriate—she or he is likely to be reluctant to accept that assignment unless there are considerable perks in addition to the salary.

With the increasing number of companies that operate around the world and assign and move personnel (whether one calls them expatriates, transpatriates, or inpatriates) from one country to another, the design of equitable pay scales has become exceedingly complex. In a 2011 International

Assignments Policies and Practices Survey by KPMG, companies noted the need to “review mobility policies to focus on harmonization of the treatment of globally mobile employees.”<sup>77</sup> Should those managers in similar positions who come from different countries to a host country be paid according to the MNE headquarters location, or the host location, or that manager’s home location? Or should they all be paid the same according to a globally-determined rate for that job? Further complications arise from any legal or cultural restrictions on compensation in a particular location.

Most important, to be strategically competitive, the compensation package must be comparatively attractive to the kinds of managers the company wishes to hire or relocate. Some of those managers will, of course, be local managers in the host country. This, too, is a complex situation requiring competitive compensation policies that can attract, motivate, and retain the best local managerial talent. In many countries, however, it is a considerable challenge to develop compensation packages appropriate to the local situation and culture, while also recognizing the differences between local salaries and those expected by expatriates or transpatriates (that difference itself often being a source of competitive advantage).

## TRAINING AND COMPENSATING HOST-COUNTRY NATIONALS

### Training HCNs

*We found that the key human resource role of the MNC [in Central and Eastern Europe] was to expose the local staff to a market economy; to instill world standards of performance; and provide training and functional expertise.*<sup>78</sup>

The continuous training and development of HCNs and TCNs for management positions is also important to the long-term success of multinational corporations. As part of a long-term staffing policy for a subsidiary, the ongoing development of HCNs will facilitate the transition to an indigenization policy. Furthermore, multinational companies like to have well-trained managers with broad international experience available to take charge in many intercultural settings, whether at home or abroad, and, increasingly, in developing countries. Kimberly-Clark, for example, with over 60,000 employees around the world, has steadily increased its talent development and training programs in all countries, but more recently has focused on developing markets. “In Latin America, the average employee has gone from receiving practically no training time to about 38 hours each year. By contrast, workers in Europe now receive 40 hours per year—eight hours more than in 1996.”<sup>79</sup>

Training for HCNs by foreign companies operating in the United States can be quite surprising for managers operating in their own country when they have to learn new ways. Toyota is an example of how employees at all levels must be trained in “the Toyota Way.” As recounted by Ms. Newton, a 38-year-old Indiana native who joined Toyota after college 15 years ago and now works at the North American headquarters in Erlanger, Kentucky:

*For Americans and anyone, it can be a shock to the system to be actually expected to make problems visible. Other corporate environments tend to hide problems from bosses.*<sup>80</sup>

What Ms. Newton is referring to are the colored bar charts against a white bulletin board, which represent the work targets of individual workers, visibly charting their successes or failures to meet those targets. This is part of the Toyota Way. The idea is not to humiliate, but to alert co-workers and enlist their help in finding solutions. Ms. Newton, now a general manager in charge of employee training and development at Toyota’s North American manufacturing subsidiary, said it took a while to fully accept that but now she is a firm believer.<sup>81</sup>

Certainly, there is no arguing with success—in 2009 Toyota became the largest global automaker in sales. The training institute in Mikkabi has trained over 700 foreign executives, including cultural orientation with the same intensity as its training in the production processes. Core concepts such as ownership of problems and visibility are impressed upon new employees. A shared sense of shared purpose is conveyed with open offices—often without even cubicle partitions between desks.<sup>82</sup>

Many multinationals, in particular “chains,” wish to train their local managers and workers to bridge the divide between, on the one hand, the firm’s successful corporate culture and practices, and on the other, the local culture and work practices. One example of how to do this in China is the Starbucks firm, featured in *Management In Action: Success! Starbucks’ Java Style Helps to Recruit, Train, and Retain Local Managers in Beijing*.

Many HCNs are, of course, receiving excellent training in global business and Internet technology within their home corporations. For example, Kim In Kyung, twenty-four, has a job involving world travel and high technology with Samsung Electronics Company of Seoul, South Korea. Part of Samsung's strategy is to promote its new Internet focus, reflecting Seoul's sizzling tech boom.<sup>83</sup>

Whether in home corporations, MNC subsidiaries, or joint ventures in any country, managerial training to facilitate e-business adoption is taking on increasing competitive importance in order to take advantage of new strategic opportunities. While large companies are well ahead on the curve for information and communication technologies (ICT), there is considerable need for small and medium-sized enterprises (SMEs) to adopt such knowledge-creating capabilities.

Managerial training in ICT is particularly critical for firms in new economy and emerging markets, and, in the aggregate, can provide leverage for rapid economic growth in regions such as Eastern Europe. Research by Damaskopoulos and Evgeniou addressed these needs by surveying more than 900 SME managers in Slovenia, Poland, Romania, Bulgaria, and Cyprus. While most managers recognized the opportunities in implementing e-business strategies, they also noted the urgent need for training in order to take advantage of those opportunities. Some of the training needs and issues as perceived by those SME managers are shown below. Some of these factors are at the firm level, while other issues relate to the market and regulatory levels, such as the need to increase security for commercial activity on the Internet.<sup>84</sup> Such findings highlight the need to recognize the strategy-staffing-training link and its importance to the overall growth of emerging economies.

#### Training Priorities for E-Business Development<sup>85</sup>

- How to develop a business plan and an e-business strategy
- How to develop the partnerships and in-house expertise for e-business
- How to finance e-business initiatives
- Addressing security and privacy concerns
- How to set up electronic payments
- How to develop good customer relations on the Internet
- Training in technology management
- How to collect marketing intelligence online



### MANAGEMENT IN ACTION

*Success! Starbucks' Java Style Helps to Recruit, Train, and Retain Local Managers in Beijing*

*When we first started, people didn't know who we were and it was rough finding sites. Now landlords are coming to us.*

DAVID SUN,

President of Beijing Mei Da Coffee Company (former Starbucks' partner for Northern China), *The Economist*, October 6, 2001.

As we see from the above quote, Starbucks has achieved a remarkable penetration rate in China, given that it is a country of devoted tea drinkers who do not take readily to the taste of coffee.

Starbucks is no stranger to training leaders from around the world into the Starbucks style. As of October 2011, Starbucks has both store-owned and licensed locations in 54 countries, as detailed below:

#### Starbucks' Global Presence as of 2011

##### UNITED STATES STORES

**50** states, plus the District of Columbia.

**7,087** Company-operated stores.

**4,081** Licensed stores.

**FIGURE 9-1** A Starbucks Coffee Shop in Old Beijing-Style Building in Beijing, China



Source: © Jack Young-Places/Alamy

### INTERNATIONAL STORES

43 countries outside the United States.

**Company-operated:** 1,796 stores, in Australia, Canada, Chile, China (Northern China, Southern China), Germany, Ireland, Puerto Rico, Singapore, Thailand, and the United Kingdom.

**Joint Venture and Licensed Stores:** 2,792 stores, in Austria, the Bahamas, Bahrain, Brazil, Canada, China (Shanghai/Eastern China), Cyprus, Czech Republic, Denmark, Egypt, France, Greece, Hong Kong, Indonesia, Ireland, Japan, Jordan, Kuwait, Lebanon, Macau S.A.R., Malaysia, Mexico, the Netherlands, New Zealand, Oman, Peru, the Philippines, Qatar, Romania, Russia, Saudi Arabia, South Korea, Spain, Switzerland, Taiwan, Turkey, the United Arab Emirates, and the United Kingdom.<sup>86</sup>

Company managers nevertheless have had quite a challenge in recruiting, motivating, and retaining managers for its Beijing outlets (and, more recently, in its Qunguang Square outlet in Central China). Starbucks' primary challenge has been to recruit good managers in a country where the demand for local managers by foreign companies expanding there is far greater than the supply of managers with any experience in capitalist-style companies. Chinese recruits have stressed that they are looking for opportunity to get training and to advance in global companies rather than for money. They know that managers with experience in Western organizations can always get a job. The brand's pop-culture reputation is also an attraction to young Beijingers.

In order to expose the recruits to java-style culture as well as to train them for management, Starbucks brings them to Seattle, Washington, for three months to give them a taste of the West Coast lifestyle and the company's informal culture, such as Western-style backyard barbecues.

Then they are exposed to the art of cappuccino-making at a real store before dawn and concocting dozens of fancy coffees. They get the same intensive training as anyone else anywhere in the world. One recruit, Mr. Wang, who worked in a large Beijing hotel before finding out how to make a triple grande latte, said that he enjoys the casual atmosphere and respect. The training and culture are very different from what one would expect at a traditional state-owned company in China, where the work is strictly defined and has no challenge for employees.

Starbucks has found that motivating their managers in Beijing is multifaceted. They know that people won't switch jobs for money alone. They want to work for a company that gives them an opportunity to learn. They also want to have a good working environment and a company with a strong reputation. The recruits have expressed their need for trust and participation in an environment where local nationals are traditionally not expected to exercise initiative or authority. In all, what seems to motivate them more than anything else is their dignity.

Source: *www.Starbucks.com*, *Corporate Information: October 2011 and March 5, 2009*; Associated Press, "Starbucks Reorganizes for Growth," *www.nytimes.com*; J. Adamy, "Starbucks Raises New-Stores Goal, Enters iTunes Deal," *Wall Street Journal*, October 6, 2006; "China: Starbucks Opens New Outlet in Beijing," *Info-Prod (Middle East) Ltd.*, July 20, 2003; "Coffee with Your Tea? Starbucks in China," *The Economist*, October 6, 2001.

In another common scenario also requiring the management of a mixture of executives and employees, American and European MNCs presently employ Asians as well as Arab locals in their plants and offices in Saudi Arabia, bringing together three cultures: well-educated Asian managers living in a Middle Eastern, highly traditional society who are employed by a firm reflecting Western technology and culture. This kind of situation requires training to help all parties effectively integrate multiple sets of culturally based values, expectations, and work habits.

### Compensating HCNs

How do firms deal with the question of what is appropriate compensation for host-country nationals, given local norms and the competitive needs of the firm? According to a survey of 90 MNCs by Mercer Human Resource Consulting, 85 percent of MNCs have a global pay strategy in place. Those firms adjust pay according to market conditions and design methods for job grading and incentive plans.<sup>87</sup>

Of course, no one set of solutions can be applicable in any country. Many variables apply—including local market factors and pay scales, government involvement in benefits, the role of unions, the cost of living, and so on. In Eastern Europe, for example, Hungarians, Poles, and Czechs spend 35 to 40 percent of their disposable income on food and utilities, which may run as high as 75 percent in the Russian Federation.<sup>88</sup> Therefore, East European managers must have cash for about 65 to 80 percent of their base pay, compared to about 40 percent for U.S. managers (the rest being long-term incentives, benefits, and perks). In addition, they still expect the many social benefits provided by the “old government.” To be competitive, MNCs can focus on providing goods and services that are either not available at all or are extremely expensive in Eastern Europe. Such upscale perks can be used to attract high-skilled workers.

*Nestlé Bulgaria offers a company car and a cellular phone to new recruits.*<sup>89</sup>

In Japan, in response to a decade-long economic slump, companies are revamping their HRM policies to compete in a global economy. The traditional lifetime employment and guaranteed tidy pension are giving way to the more Western practices of competing for jobs, of basing pay on performance rather than seniority, and of making people responsible for their own retirement fund decisions.<sup>90</sup>

*“Finding the appropriate talent to take advantage of the growth prospects of emerging markets is one of the biggest challenges we face,” said Louis Camilleri, chairman and CEO of Philip Morris International.*

#### THE 2011 PRICEWATERHOUSECOOPERS’ 14<sup>TH</sup> ANNUAL CEO SURVEY

According to the PricewaterhouseCoopers’ survey, 40 percent of CEOs report difficulty forecasting talent availability in the Asia Pacific Region, in particular China and India. A key concern of Western managers in China, and India, as well as the firms that outsource there, are the rapidly rising pay rates in those countries, as well as a shortage of top talent. This shortage of talent is especially problematic in India. With the considerable growth in emerging markets, foreign firms trying to get on the bandwagon there are finding themselves in a “war for talent.” With that kind of supply-demand ratio for local skilled managers, salaries are being pushed up; that situation then lowers the rationale for hiring local managers instead of sending expatriates.

According to Citigroup, it is also imperative to make clear what benefits, as well as salary, come with a position because of the way compensation is perceived and regulated around the world.<sup>91</sup> In Latin America, for example, an employee’s pay and title are associated with what type of car they can receive.

In a 2011 study by the Society for Human Resource Management and the employee-engagement consulting firm Globoforce found that 80 percent of 745 organizations surveyed have some kind of incentive and reward program. However, the respondents cited the tremendous challenge of aligning their programs within a diversity of cultural values and local systems.<sup>92</sup>



## COMPARATIVE MANAGEMENT IN FOCUS

*IHRM Practices in Australia, Canada, China, Indonesia, Japan, Latin America, Mexico, South Korea, Taiwan, and the United States*

In a comparative long-term study of how the major IHRM functions are performed around the world, a team of 37 researchers in ten locations, led by Mary Ann von Glinow, studied how and in what environments various organizations conducted those functions. Exhibit 9-11 is a summary of the findings from their “Best International Human Resource Management Practices Project.” For the practice of compensation, for example, the first column shows those practices the researchers found to be universal within the cultures studied. The second column shows countries or regions where those practices are similar. The third column shows where those practices were specific to certain countries. For the practice of selection, for example, a major tool in Korea is the employment test, whereas in Taiwan the job interview is considered the most important criterion. Korea and Taiwan also “cluster” in de-emphasizing proven work experience; whereas the Anglo cluster showed the job interview, technical skill, and work experience to be the most important selection criteria. Those “universals” found for the selection function were “getting along with others” and “fit with the corporate values.”<sup>93</sup>

**EXHIBIT 9-11** Trends in International Human Resource Management Practices Across Selected Countries and Regions

| Practice     | Universal Derived ETICS<br>“Best Practices”                                                                                                                                                                                                                                                       | Regional or Country Clusters                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Country Specific                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Compensation | <p>Pay incentives should not comprise too much of an employee’s compensation package.</p> <p>Compensation should be based on individual job performance.</p> <p>There should be a reduced emphasis on seniority.</p> <p>Benefits should comprise an important part of a compensation package.</p> | <p>Seniority-based pay, pay based on group/team or organizational goals, and pay based on future goals—all are used to a larger extent in the Asian and Latin countries now.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>U.S. and Canada has less use of pay incentives than expected.</p> <p>China and Taiwan had above-average use of pay incentives, and wanted more based on individual contributions.</p>                                                                                                                                                                                                                                                                                                                                               |
| Selection    | <p>“Getting along with others,” and “Fit with the Corporate Values” signals a shift in selection from “West meets East.”</p>                                                                                                                                                                      | <p>Selection practices were remarkably similar among the Anglo countries. Specifically, job interview, technical skill, and work experience are the most important selection criteria. How well the person fits the company’s values replace work experience as one of the top selection criteria for future selection practices.</p> <p>Selection practices are quite similar in Korea, Japan, and Taiwan. Specifically, proven work experience is de-emphasized as a selection practice in these countries. In the Anglo and Latin American countries, allowing subordinates to express themselves is perceived as an important future appraisal practice.</p> | <p>In Japan, a heavy emphasis is placed on a person’s potential (thus hiring new graduates) and his/her ability to get along with others. A relatively low weight was given to job-related skills and experience as a selection criterion.</p> <p>In Korea, employment tests are considered crucial and are used to a large extent as a selection tool, as well as hiring new graduates. Koreans de-emphasize experience.</p> <p>In Taiwan, the job interview is considered the most important criterion in the selection process.</p> |

**EXHIBIT 9-11 Trends in International Human Resource Management Practices Across Selected Countries and Regions (Continued)**

|                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Performance appraisal         | <p>In all countries, “should-be” scores were higher on every purpose, suggesting that the purposes of PA have fallen short in every country.</p> <p>All countries indicated that a greater emphasis be placed on development and documentation in future PA practices. In particular, recognizing subordinates, evaluating their goal achievement, planning their development activities, and (ways to) improving their performance are considered the most important appraisal practices for the future.</p> | <p>In contrast, in the Asian countries expression is used to a low extent, particularly in Korea.</p> <p>In the Latin American countries, the administrative purposes of performance appraisal are considered important in future practice.</p>                                                                                                                                                                                               | <p>In Taiwan, the administrative purposes of performance appraisal are considered important in future practice.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| T&D                           | <p>In most countries, T&amp;D practices are used to improve employees’ technical skills. There is a growing trend toward using T&amp;D for team building and “soft management practices.”</p>                                                                                                                                                                                                                                                                                                                 | <p>In the Anglo countries, the softer T&amp;D practices such as team building, understanding business practices and corporate culture, and the pro-active T&amp;D practices such as preparation for future assignment and cross-training are used moderately; however, a significant increase in these practices is desired.</p> <p>In the Latin countries, an increase in the extent to which all T&amp;D practices are used is desired.</p> | <p>In Mexico, T&amp;D as a reward to employees is considered a highly desirable practice.</p> <p>In the U.S. and Korea, preparing employees for future job assignments is used to a lesser extent. U.S. is using outsourcing more. In the Asian countries, most T&amp;D practices are used moderately and are consistently considered satisfactory.</p> <p>In Japan, remedying past performance is used to a small extent, however, a significant increase in this practice is desired.</p> <p>In Korea, team building is used extensively and emphasized in all T&amp;D practices.</p> |
| Relation to business strategy | <p>Across most countries, the HRM practices most closely linked to organizational capability are training and development and performance appraisal.</p>                                                                                                                                                                                                                                                                                                                                                      | <p>In the Asian countries, linkages were indicated between both low cost and differentiation strategies and HRM practices.</p>                                                                                                                                                                                                                                                                                                                | <p>In Mexico, no linkages were indicated between organizational capability and HRM practices.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Status of HRM function        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                               | <p>In Japan and Taiwan few linkages were indicated between organizational capability and HRM practices.</p> <p>Status of HRM was highest in Australia and lowest in Indonesia.</p>                                                                                                                                                                                                                                                                                                                                                                                                      |

Source: Mary Ann Von Glinow, Ellen A. Drost, and Mary B. Teagarden, “Converging on IHRM Best Practices: Lessons Learned from a Globally Distributed Consortium on Theory and Practice,” *Human Resource Management* 41, no. 1 (2002): 133–35.

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## CONCLUSION

The IHRM function is a vital component of implementing the global strategy of a firm. In particular, managing the IHRM functions for and in emerging markets presents complex challenges at all employee levels; these include the war for talent for managerial and professional people, and the issues of outsourcing employees in those markets. Careful decisions regarding the appropriate staffing policy for foreign locations are crucial to the success of the firm's operations, particularly because of the lack of proximity to and control by headquarters executives. In particular, the ability of expatriates to initiate and maintain cooperative relationships with local people and agencies will determine the long-term success, even the viability, of the operation. In a real sense, a company's global cadre represents its most valuable resource. Proactive management of that resource by headquarters will result in having the right people in the right place at the right time, appropriately trained, prepared, and supported. MNCs using these IHRM practices can anticipate the effective management of the foreign operation, the fostering of expatriates' careers, and, ultimately, the enhanced success of the corporation.

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## Summary of Key Points

1. Global human resource management is a vital component of implementing global strategy and is increasingly being recognized as a major determinant of success or failure in international business.
2. The main staffing alternatives for global operations are the ethnocentric, polycentric, regiocentric, and global approaches; the use of inpatriates supplements those choices. Each approach has its appropriate uses, according to its advantages and disadvantages, and, in particular, the firm's strategy.
3. The causes of expatriate failure include the following: poor selection based on inappropriate criteria, inadequate preparation before assignment, alienation from headquarters, inability of manager or family to adapt to local environment, inadequate compensation package, and poor programs for career support and repatriation.
4. The three major areas critical to expatriate preparation are cultural training, language instruction, and familiarity with everyday matters.
5. Common training techniques for potential expatriates include area studies, culture assimilators, language training, sensitivity training, and field experiences.
6. Appropriate and attractive compensation packages must be designed by IHRM staffs to sustain a competitive global expatriate staff. Compensation packages for host-country managers must be designed to fit the local culture and situation, as well as the firm's objectives.

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## Discussion Questions

1. What are the major alternative staffing approaches for international operations? Explain the relative advantages of each and the conditions under which you would choose one approach over another.
2. Why is the HRM role so much more complex, and important, in the international context?
3. Discuss the challenges involved in staffing operations in emerging markets.
4. Explain the common causes of expatriate failure. What are the major success factors for expatriates? Explain the role and importance of each.
5. What are the common training techniques for managers going overseas? How should these vary as appropriate to the level of globalization of the firm?
6. Explain the balance sheet approach to international compensation packages. Why is this approach so important? Discuss the pros and cons of aligning the expatriate compensation package with the host-country colleagues compared to the home-country colleagues.
7. Discuss the importance of a complete program for expatriate performance management. What are the typical components for such a program?

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## Application Exercises

1. Make a list of the reasons you would want to accept a foreign assignment and a list of reasons you would want to reject it. Do they depend on the location? Compare your list with a classmate and discuss your reasons.
2. Research a company with operations in several countries and ascertain the staffing policy used for those countries. Find out what kinds of training and preparation are provided for expatriates and what kinds of results the company is experiencing with expatriate training.

## Experiential Exercise

This can be done in groups or individually. After the exercise, discuss your proposals with the rest of the class.

You are the expatriate general manager of a British company's subsidiary in Brazil, an automobile component parts manufacturer. You and your family have been in Brazil for seven years, and now you are being reassigned and replaced with another expatriate—Ian Fleming. Ian is bringing his family—Helen, an instructor in computer science, who hopes to find a position; a son, age twelve; and a daughter, age fourteen. None of them has

lived abroad before. Ian has asked you what he and his family should expect in the new assignment. Remembering all the problems you and your family experienced in the first couple of years of your assignment in Brazil, you want to facilitate their adjustment and have decided to do two things:

1. Write a letter to Ian, telling him what to expect, both on the job and in the community. Tell him about some of the cross-cultural conflicts he may run into with his coworkers and employees, and how he should handle them.
2. Set up some arrangements and support systems for the family and design a support package for them, with a letter to each family member telling them what to expect.

## Internet Resources

Visit the Deresky Companion Website at [www.pearsonhighered.com/deresky](http://www.pearsonhighered.com/deresky) for this chapter's Internet resources.

## CASE STUDY

### Kelly's Assignment in Japan

Well, it's my job that brought us here in the first place ... I am going to have to make a decision to stick with this assignment and hope I can work things out, or to return to the United States and probably lose my promised promotion after this assignment—maybe even my job.

As she surveyed the teeming traffic of downtown Tokyo from her office window, Kelly tried to assess the situation her family was in, how her job was going, and what could have been done to lead to a better situation four months ago when she was offered the job.

As a program manager for a startup Internet services company, she had been given the opportunity to head up the sales and marketing department in Tokyo. Her boss said that “the sky's the limit” as far as her being able to climb the corporate ladder if she was successful in Tokyo. She explained that she did not speak Japanese and that she knew nothing about Japan. But he said he had confidence in her since she had done such a great job in Boston and in recent short assignments to London and Munich. Moreover, the company offered her a very attractive compensation package that included a higher salary, bonuses, a relocation allowance, a rent-free apartment in Tokyo, and an education allowance for their two children, Lisa and Sam, to attend private schools. She was told she had two days to decide, and that they wanted her in Tokyo in three weeks because they wanted her to prepare and present a proposal for a new account opportunity there as soon as possible. Her boss said they would hire a relocation company to handle the move for her.

That night Kelly excitedly discussed the opportunity with her husband, Joe. He was glad for her and thought it would be an exciting experience for the whole family. However, he was concerned about his own job and what the move would do to his career. She told him that her boss had said that Joe would probably find something or get transferred there, but that her boss did seem unconcerned about that. In the end, Joe felt that Kelly should have this opportunity, and he agreed to the move. He talked to his boss about a transfer and was told that they would look into that and get back to him. However, he knew that his company was having layoffs because of the economic decline that was taking its toll on profits. The problem was that Kelly had to make a decision before he could fully explore his options, so Kelly and Joe decided to go ahead with the plans. To sweeten the deal, Kelly's company had offered to buy her house in Boston since the housing market decline had her concerned about whether she could sell without taking a loss.

After the long trip, they arrived at their apartment in Tokyo; they were tired but excited, but did not anticipate that the apartment would be so tiny, given the very high rent that the company was paying for it. Kelly realized at once that they had included way too much in their move of personal belongings to be able to fit into this apartment. Undaunted, they planned to spend the weekend sightseeing and looked forward to some travel. Japan was beautiful in the spring and they were anxious to see the area.

On Monday, Kelly took a cab to the office. She had emailed requesting a staff meeting at 9 a.m. She knew that her immediate staff would include seven Japanese, two Americans, and two Germans—all men. Her assistant, Peter, to whom she had not yet spoken, was an American who had also just arrived, coming from an assignment in London. He greeted her at the elevator, looking surprised, and they proceeded to the conference room, where everyone was awaiting “the new boss.” Kelly exchanged the usual handshake greetings with the Westerners, and then bowed to the Japanese; an awkward silence and exchange took place, with the Japanese looking embarrassed. While she attempted a greeting in her limited Japanese that she had studied on the plane, she was relieved to find that the Japanese spoke English, but they seemed very quiet and hesitant. Peter then told her that they all thought that “Kelly” was a man, and they all attempted a laugh.

After that, Kelly decided that she would just meet with Peter, and postpone the general meeting until the next day. She asked them to each prepare a short presentation for her on their ideas for the new account. While the Americans and Germans said they would have it ready, the Japanese seemed reluctant to commit themselves.

Meanwhile, at home Joe was looking into the schools for the children and also trying to make some contacts to look for a job. Travelling, getting information, and shopping for groceries proved bewildering, but they decided that they would soon get acquainted with local customs.

At the office the next day, Kelly received a short presentation from the Westerners on the staff, but when it came to the Japanese they indicated that they had not yet had a chance to meet with their groups and other contacts in order to come to their decisions. Kelly asked them why they had not told her the day before that they needed more time, and when could they be ready. They seemed unwilling to give a direct answer and kept their eyes lowered. In an attempt to lighten the atmosphere and get to know her staff, Kelly then began chatting casually and asked several of them about their families. The Americans chatted on about their children’s achievements, the Germans talked about their family positions, and the Japanese went silent, seemingly very confused and offended.

Still attempting to get everyone’s ideas for an initial proposal to the potential new client, Kelly later asked one of the Americans who had been there for some time what he thought was the problem and delay in getting presentations from the Japanese. He told her that they did not like to do individual presentations, but rather wanted to gain consensus among themselves and their contacts and present a group presentation. Having learned her lesson, but feeling irritated, she asked him to intervene and have the presentations ready for the next week. When that time came, the rest of the presentations were made by the Japanese, but, oddly, they seemed to be addressed primarily to Peter. Later, Kelly decided to finalize her own presentation to put forth a proposal for the client, which she set up for the following week.

At home, Joe said that he had not heard anything from his company in Boston and asked Kelly to again contact her company to request some networking in Tokyo that might lead to job opportunities for him. Kelly said she would do that, but that there didn’t seem to be any one person “back home” who was keeping up with her situation or giving any support about that or about her job.

The children, meanwhile, complained that, although their schools were meant to be bilingual English-Japanese, a majority of the children were Japanese and did not speak English; Lisa and Sam felt confused and left out. They were disoriented by the different customs, classes, and foods for lunch. At home they complained that there was no back yard to go out to play, and that they could not get their programs on the television, or understand the Japanese programs.

Back at the office, Kelly worked with her staff to finalize the proposal, but noticed a strained atmosphere. Peter told her that some of them would drop by a local bar for a drink after work, which helped the whole group to relax together. However, she felt that she could not do that, nor that she would be accepted as a female.

The next week, as arranged, Kelly and Peter went to the offices of the client; she knew that a lot was riding on getting this big new contract. She had asked Peter to let them know ahead of

time that she is a woman, yet the introductions still seemed strained. She planned to get straight down to business, so when the client company's CEO handed her his business card, she put it in her pocket without a glance, and did not give him her card. Again she noticed some shock and embarrassment all around. (She found out much later that a business card is very important to a Japanese businessman because it conveys all his accomplishments and position without having to say it himself.) Flustered, she tried to make light of the situation, patted him on the back, and asked him what his first name was, saying, rather loudly, that hers' was Kelly. He went quiet again, backed away from her, and, with his head bowed, whispered "Michio." He glanced around at his Japanese colleagues rather nervously.

After a period of silence, Michio pointed to the table of refreshments, and indicated that they sit and eat; however, Kelly was anxious to present her power-point slides and went to the end of the table where the equipment was and asked Peter to set up the slides. As she proceeded to go through the proposal, telling them what her company could do for them, she paused and asked for questions. However, when Michio and his two colleagues asked questions, they directed them to Peter, not to her. In fact, they made little eye contact with her at all. She tried to remain cool, but insisted on answering the questions herself. In the end, she sat down and asked Michio what he thought of the proposal. He bowed politely and said "very good" and that he would discuss it with his colleagues and get back to her. However, Kelly did not hear from them, and after a couple of weeks she asked Peter to follow up with them. He did that, but reported that they were not going to pursue the contract. Frustrated, she said, "Well, why did Michio say that it looked very good, then?" She knew that it was a very competitive proposal and felt that something other than the proposed contract was to blame for the loss of the contract.

Disillusioned, but determined not to give up without success in the assignment, Kelly took a cab to go home and think about it, but the driver misunderstood her and went the wrong way and got stuck in traffic. She felt discouraged and wished that she had some female American friends to whom she could confide her problems.

When Kelly got home, Peter was angrily trying to fix dinner, complaining about the small appliances and not being able to understand the food packages or how to prepare the food. He said he needed something else to do, but that there did not seem to be a job on the horizon for him. He was also concerned about continuing to live in such a high-cost city on only one salary.

Kelly went to the other room to see the children; they were fighting and complaining that they had nothing to do and wanted to go home. Kelly felt that the three months that they had been there was not a fair trial, and was wondering what to do. She wished she had had more time to prepare for this assignment, and whenever she contacted the home office no one seemed able to advise her.

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## Case Questions

1. Explain the clashes in culture, customs, and expectations that occurred in this situation.
2. What stage of culture shock is Kelly's family experiencing?
3. Turn back the clock to when Kelly was offered the position in Tokyo. What, if anything, should have been done differently, and by whom?
4. You are Kelly. What should you do now?