

Developing a Global Management Cadre



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OBJECTIVES

1. To emphasize the critical role of expatriates in managing in host subsidiaries and in transferring knowledge to and from host operations.
2. To appreciate the importance of international assignments in developing top managers with global experience and perspectives.
3. To recognize the need to design programs for the careful preparation, adaptation, and repatriation of the expatriate and any accompanying family, as well as programs for career management and retention.
4. To become familiar with the use of Global Management Teams to coordinate cross-border business.
5. To recognize the varying roles of women around the world in international management.
6. To understand the variations in host-country labor relations systems and the impact on the manager's job and effectiveness.

OPENING PROFILE: THE EXPAT LIFE¹

What is it like to take an assignment abroad? Would you like to be an “expat” (expatriate)? Is it an adventure or a hardship? Experiences of those who have done a stint abroad are mixed. But it is clear that it is very likely an opportunity that will present itself at some point during your career. Most companies with global business transactions want their top employees to have overseas experience. At Procter and Gamble, for example, 39 of the company’s top 44 global officers have had an international assignment and 22 were born outside the United States. Most multinational companies are moving from 0.5 to 1 percent of their employees abroad, and about 68 percent expect that to increase, according to the Global Relocation Trends Survey.

Experiences vary by job type, and especially by location. Adjustment is easier for those who go to places where the culture and business practices are similar to their own. Those transitioning between Western Europe and the United States or Canada, for example, typically adapt easier than those going to China or Yemen, as related below. Some expatriates enjoy perks that they do not get at home, and others find they fare worse financially, either while overseas or when they return home. In addition, with more firms expanding operations in emerging economies, expats often face considerable challenges such as inefficient infrastructure, limited housing, medical, or education facilities, security risks, political instability. Such conditions often mean that the assignment is turned down, or that the manager will decide to go without his or her family. In most places, assignees expect the assignment to be career-broadening and hope it will leverage them to a promotion. Some expat experiences are described below.

As an example of how quickly the changing global environment can affect expats, we can look at the typical expat life for Wall Street executives as described in the *New York Times* in 2008: “When Wall Streeters pack their bags for Dubai or Shanghai, for example, they get much more than a plane ticket and coverage of per-diem expenses. These days, moving abroad can mean scoring a nanny, a driver, or even a bodyguard.”² In Shanghai, there are 70,000 expatriates from around the world, in various capacities. For those in the finance industry the expat package typically includes round trips home a year; fees for a real estate agency; moving expenses; at least one month of temporary accommodation; and language classes, if required. For an accompanying family, fees for private schools, for example, are usually included, as well as help for the spouse to find a job. A cost of living adjustment is typically included, as well as an adjustment for tax equalization. A very nice assignment—however, in spring 2009, the *New York Times* was then reporting about the number of expats in the banking and finance industry who were getting laid off:

*“Losing your job anywhere is disorienting, but imagine being laid off when you work in a foreign country. Not only is your source of income, and perhaps a good part of your identity, suddenly yanked away, but often you lose your right to remain in the country.”*³

That, however, was an unusual development; for most expats the overseas assignment has been very rewarding in terms of both personal and job experience.

In many circumstances the adventure that started out with many concerns turns out to be one that the expats and their families do not want to end. According to the Global Relocation Trends Survey, 26% of expats opt to continue their overseas assignment when the original term ends. Those people have settled in to their position and life in the host country and enjoy their situations.

One reporter assigned to Beijing commented, “That’s why we recently decided to extend our stay for a fourth year. For me, it was an easy decision. The three years that seemed so ominous turned out to be not nearly enough time to settle into a new life.” The family wanted to do more travelling, as well as really understanding and enjoying the culture of Beijing.⁴

Assignments in some locations can turn out to be more challenging. One example is that of Mr. Deffontaines, who moved to Yemen in 2008 as the local manager for Total, the French oil giant, along with his family. Since then, Mr. Deffontaines has seen his main export pipeline damaged by terrorists, endured devastating flash floods, and sent expatriate families back home because of security concerns.

Recounting some of the interesting challenges he had faced there, Mr. Deffontaines, a 43-year-old Parisian, described “negotiating with tribal leaders and sending actors to remote villages to stage a play about the hazards of gas pipelines. In meetings with government officials to thrash out problems, participants typically chew khat, a mildly narcotic plant that is widely consumed in Yemen but banned in many places around the world.”⁵

A particularly difficult decision, in response to growing security concerns, was to send the families of his workers back to France. His own wife, son, and twin daughters were among those forced to depart.

Robert Kneupfer, a lawyer, reflects that, in spite of inconveniences like the 17-year wait for a telephone line and the absence of any McDonald’s, the five years he spent in Budapest with his family on

behalf of the international law firm Baker & McKenzie were a “defining moment both personally and professionally.” The 56-year-old partner, now based in Chicago, didn’t speak the language, and his children had been reluctant to leave family and friends. His advice: “Don’t sweat the small stuff. You need to appreciate the bigger-picture experience.”⁶ His advice follows that of many others:

- Learn the customs of a new country before arriving, be flexible, and maintain a lifeline to your home office. You don’t want to become out of sight, out of mind.
- Learn the language, or at least practice a few key phrases.
- Prepare for the cultural differences as a family.
- Develop a support network with the local expatriate community.
- Set up a routine for the whole family as soon as possible.⁷
- Be aware of the potential negative effects on the whole family. The initial excitement can turn to culture shock, loneliness, identity loss, and depression, and it is often the employee’s spouse and children—without the familiar routine of work—who are most affected.

Further advice from a well-travelled expat comes from Philip Shearer, Group President, Clinique, Estee Lauder. His mother was French, his father British, and he was born in Morocco. After going to college in France and then business school in the United States, he worked at a pharmaceutical company in Minneapolis. Then he worked in France, Mexico, Britain, Japan, and again in the United States for companies such as L’Oréal and the Elizabeth Arden division of Eli Lilly.

Shearer’s advice melds with that of other successful expats who seem to be able to distill their experiences and travels to arrive at common themes. They recommend that, above all, you should be yourself and gain a reputation for being trustworthy. In that way people will trust you and relate to you no matter where you are from. Shearer warns, however, that Americans generally show off too much. “But in the end, you have to deliver. And that’s the same all over the world.”⁸

A crucial factor in global competitiveness is the ability of the firm to maximize its global human resources in the long term. In the globalized economy, the knowledge and management resources, as well as the skilled and non-skilled employee resources, required for the firm to succeed are no longer concentrated in a single region but are distributed around the world. There are various categories of those resources—both people and processes—which IHR managers and others must develop and maintain; in particular it is essential for them to:

1. Maximize long-term retention and use of international cadre through career management so that the company can develop a top management team with global experience.
2. Develop effective global management teams.
3. Understand, value, and promote the role of women in international management in order to maximize those underutilized resources.
4. Work with the host-country labor relations system to effect strategic implementation and employee productivity.

EXPATRIATE CAREER MANAGEMENT

Martin Walker, senior director of the Global Business Policy Council at A. T. Kearney, a consultancy, maintains that the dearth of talent is mainly evident at the very top: “Shortages do exist—most notably, of people with the internationalized business skills to thrive at senior management level in global companies.”

THE GLOBAL TALENT INDEX REPORT: THE OUTLOOK TO 2015,
HEIDRICK & STRUGGLES.⁹

It is clear from the above quote that the road to the top necessitates that managers have overseas experience. For the firm, the ability to develop a top management team, globally experienced, depends largely on the success of expatriates’ assignments—and that depends on the ability to well manage the transitions for the expatriate and any accompanying family members. The importance of this was determined by the 2011 Global Relocation Trends survey that found that “only 22% of respondents had formal career-management processes for international assignees and 18% of respondents had a formal candidate pool for international assignments.”¹⁰

Preparation, Adaptation, and Repatriation

The top family challenges identified as very critical to companies were partner resistance (47%), family adjustment (32%), children's education (29%), and location difficulties (25%).¹¹

THE 2011 GMAC GLOBAL RELOCATIONS TRENDS SURVEY

Effective human resource management of a company's global cadre does not end with the overseas assignment. It ends with the successful repatriation of the executive into company headquarters. A study by Heidrick & Struggles, the international headhunting firm, revealed that international experience has become much more important to get to the top of FTSE (London Stock Exchange) 100 companies than a decade ago. "Chief executives such as Mark Tucker at Prudential, who has experience in the United States and Asia, and Unilever's Patrick Cescau, who has worked in Europe, Asia and the United States, are becoming the norm in top companies."¹² Clearly, those executives and their companies have paid careful attention to what is necessary for successful assignments, career management, and repatriation of their experiences and skills. Such firms realize that long-term, proactive management of such critical resources should begin with the end of the current assignment in mind—that is, it should begin with plans for the repatriation of the executive as part of his or her career path. The management of the reentry phase of the career cycle is as vital as the management of the cross-cultural entry and training. Otherwise, the long-term benefits of that executive's international experience may be negated. Shortsightedly, many companies do little to minimize the potential effects of **reverse culture shock** (return shock). The KPMG Global Assignment Policies and Practices Survey found that just four percent of the 430 HRM executives surveyed agreed that they handle the repatriation process well and only 12 percent offer a formal mentoring/career coaching plan for their assignees. In fact, the survey results concluded that "25 percent of organizations surveyed do not know if assignees have left the organization within 12 months of returning from international assignment. For repatriated assignees that are tracked as leaving the organization soon after returning from assignment, the overriding reason cited is the lack of an appropriate job after repatriation."¹³ For smaller companies, little, if any pre- or post-assignment counseling was provided.

A study by Lazarova and Caligiuri with 58 expatriates from four North American companies found that repatriates who received supportive practices from their firms felt that their companies had an interest in their careers and well-being and so were more likely to stay with the firm upon reentry. The expatriates were asked their opinions about the importance of various factors to them, using the HRM practices most frequently associated with successful repatriation. The first five in importance ranking were as follows:

- Visible signs that the company values international experience
- Career planning sessions
- Communications with home office of details of the repatriation process
- Continuous communications with the home office
- Agreement about position upon repatriation¹⁴

However, the extent to which each practice was available, or perceived to be available, within the participating companies did not meet the level of importance. "Career Planning Sessions," for example, was rated very important (3.57 out of 4), yet was offered only 36.2 percent of the time; and "signs that the company values international experience" received only a 28 percent rating.¹⁵ The long-term implications of ineffective repatriation practices for any particular company are clear—few good managers will be willing to take international assignments because they will see what happened to their colleagues. If a certain manager lost out on promotion opportunities while overseas and is now, in fact, worse off than before he or she left, the only people willing to take on foreign assignments in the future will be those who have not been able to succeed on the home front or those who think that a stint abroad will be like a vacation. Research has shown that employees commonly see overseas assignments as negative career moves in some U.S. multinational companies.¹⁶ In contrast, such moves are seen as positive in most European, Japanese, and Australian companies because they consider international experience necessary for advancement to top management. In a study of dual-career couples, "the perceived impact of the international assignment upon returning to the U.S." was one of the most important issues stated by managers regarding their willingness to relocate overseas.¹⁷

Reverse culture shock occurs primarily because of the difficulty of reintegrating into the organization but also because, generally speaking, the longer a person is away, the more difficult it is to get back into the swing of things. Not only might the manager have been overlooked and lost in the shuffle of reorganization, but her or his whole family might have lost social contacts or jobs and feel out of step with their contemporaries. These feelings of alienation from what has always been perceived as “home”—because of the loss of contact with family, friends, and daily life—delay the resocialization process. Such a reaction is particularly serious if the family’s overall financial situation has been hurt by the assignment and if the spouse’s career has also been kept “on hold” while he or she was abroad.

For companies to maximize the long-term use of their global cadre, they need to make sure that the foreign assignment and the reintegration process are positive experiences. This means careful career planning, support while overseas, and use of the increased experience and skills of returned managers to benefit the home office. Research into the practices of successful U.S., European, Japanese, and Australian multinational corporations (MNCs) indicates the use of one or more of the following support systems, as recommended by Tung, for a successful repatriation program:

- A mentor program to monitor the expatriate’s career path while abroad and upon repatriation.
- As an alternative to the mentor program, the establishment of a special organizational unit for the purposes of career planning and continuing guidance for the expatriate.
- A system of supplying information and maintaining contacts with the expatriate so that he or she may continue to feel a part of the home organization.¹⁸

The Role of the Expatriate Spouse

We began to realize that the entire effectiveness of the assignment could be compromised by ignoring the spouse.

STEVE FORD,
CORPORATION RELOCATIONS, HEWLETT-PACKARD¹⁹

Many companies are beginning to recognize the importance of providing support for spouses and children—in particular because both spouses are often corporate fast-trackers and demand that both sets of needs be included on the bargaining table. Research shows that 83 percent of married expatriates were accompanied by their spouses. However, while 54 percent of the spouses were employed before the assignment, only 12 percent were employed during the assignment.²⁰ “That’s underscored by the fact that 61 percent of respondents noted that the impact of family issues on early returns from assignment was very critical or of high importance.”²¹

Firms often use informal means, such as intercompany networking, to help find the trailing spouse a position in the same location. They know that with the increasing number of dual-career couples, if the spouse does not find a position, the manager will very likely turn down the assignment. They decline because they cannot afford to lose the income or because the spouse’s career may be delayed entirely if he or she is out of the workforce for a few years. As women continue to move up the corporate ladder, the accompanying (“trailing”) spouse is often male—estimated at more than 25 percent.²² Companies such as Hewlett-Packard, Shell, Medtronic, and Monsanto offer a variety of options to address the dual-career dilemma.

Clearly, then, the selection process must include spouses, partners, and entire families. Global assignments must take account of the expatriate’s personal concerns and future career; otherwise the company will face the possibility of early return and a possible doubling of the chances for employee attrition. The GMAC survey revealed that the annual turnover rate is 13 percent for all employees, compared to 25 percent for expatriate employees during assignments, and 27 percent within one year of completing assignments. Those assignees indicated that they felt their firms did not appreciate the difficulties of their overseas stints; nor did they fully utilize the expatriates’ skills on return to the home country.²³

At Procter & Gamble, employees and spouses destined for China are sent to Beijing for two months of language training and cultural familiarization. Nissho Iwai, a Japanese trading company, gets together managers and spouses who are leaving Japan with foreign managers and spouses who are on their way there. In addition, the firm provides a year of language training and information and services for Japanese children to attend schools abroad. Research on

321 American expatriate spouses around the world shows that effective cross-cultural adjustment by spouses is more likely (1) when firms seek the spouse's opinion about the international assignment and the expected standard of living and (2) when the spouse initiates his or her own predeparture training (thereby supplementing the minimal training given by most firms).²⁴

Expatriate Retention

*Managers returning from expatriate assignments are two to three times more likely to leave the company within a year because attention has not been paid to their careers and the way they fit back into the corporate structure back home.*²⁵

Firms must design support services to provide timely help for the manager and, therefore, are part of the effective management of an overseas assignment. The overall transition process experienced by the company's international management cadre over time comprises three phases of transition and adjustment that must be managed for successful socialization to a new culture and resocialization back to the old culture. These phases are (1) the exit transition from the home country, the success of which will be determined largely by the quality of preparation the expatriate has received; (2) the entry transition to the host country, in which successful acculturation (or early exit) will depend largely on monitoring and support; and (3) the entry transition back to the home country or to a new host country, in which the level of reverse culture shock and the ease of re-acculturation will depend on previous stages of preparation and support.²⁶

A company may derive many potential benefits from carefully managing the careers of its expatriates. By helping managers make the right moves for their careers, the company will be able to retain people with increasing global experience and skills.

But from the individual manager's perspective, most people understand that no one can better look out for one's interests than oneself. With that in mind, managers must ask themselves, and their superiors, what role each overseas stint will play in career advancement and what proactive role each will play in one's own career. Retaining the returning expatriate within the company (assuming he or she has been effective) is vitally important in order to gain the knowledge and benefit from the assignment. Yet, as discussed earlier, the attrition rate for expatriates is about double that of non-expatriates for the following reasons:

- Expatriates are more marketable and receive more attractive offers from other employers.
- Expatriates find that their compensation packages on overseas assignments are more generous than at home and go from one company to another to take advantage of that.
- Expatriates feel unappreciated and dissatisfied both during and after the assignment and leave the company.²⁷

It is essential, therefore, that the company pays careful attention to maintaining and retaining the expatriate by managing both the assignment and the repatriation of the expatriate and the family.

THE ROLE OF REPATRIATION IN DEVELOPING A GLOBAL MANAGEMENT CADRE

In the international assignment, both the manager and the company can benefit from the enhanced skills and experience gained by the expatriate. Many returning executives report an improvement in their managerial skills and self-confidence. Some of these acquired skills, as reported by Adler, include the following:

- **Managerial skills, not technical skills:** learning how to deal with a wide range of people, to adapt to their cultures through compromise, and not to be a dictator.
- **Tolerance for ambiguity:** making decisions with less information and more uncertainty about the process and the outcome.
- **Multiple perspectives:** learning to understand situations from the perspective of local employees and businesspeople.
- **Ability to work with and manage others:** learning patience and tolerance—realizing that managers abroad are in the minority among local people; learning to communicate more with others and empathize with them.²⁸

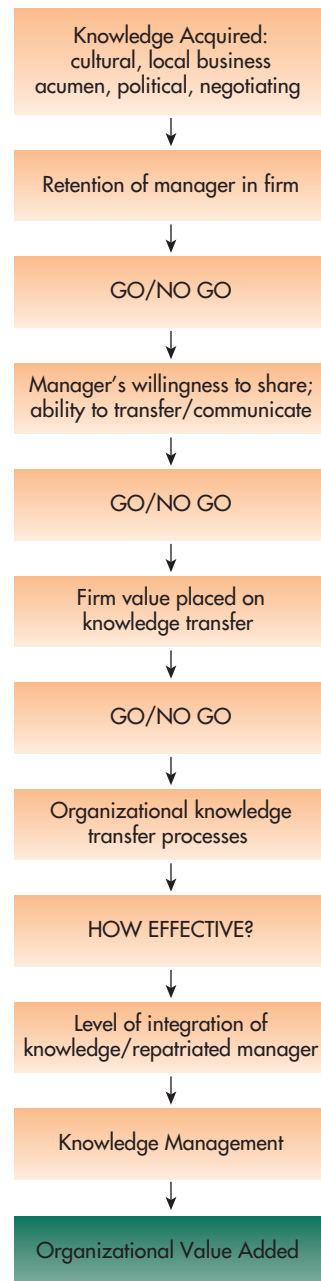
Knowledge Transfer

In addition to the managerial and cross-cultural skills acquired by expatriates, the company benefits from the knowledge and experience those managers gain about how to do business overseas, and about new technology, local marketing, and competitive information. Expatriates have long served as facilitators of intra-firm knowledge transfer and application. Traditionally, it has been assumed that the role of expatriates is partly to bring knowledge from the corporate headquarters to subsidiaries; however, it is clear that there is a potential strategic advantage when expatriates acquiring knowledge while on international assignment bring it back to the center of the organization or disseminate it across other subsidiaries.²⁹ Consider, for example, Claire Molyneux, Associate Marketing Director for P&G West Africa. Claire, who was born and raised in England, started her P&G career there in 1998 as an assistant brand manager. Over the years, she worked for P&G in Geneva and Israel. In 2008 Claire was assigned to Nigeria as marketing director for Ariel detergent, Duracell batteries and Gillette razors, and to lead research into West Africa's consumers. Claire has taken up the challenge, saying "Africa has this huge diversity. Our job is to find the similarities."³⁰ Consider the wealth of knowledge and information she has gathered in those ten years—cultural, consumer- and product-related, and technical, as well as her contacts around the world—that she is transferring across subsidiaries and benefiting the organization. Claire's situation is an example of the five types of knowledge gained abroad discussed by Berthoin:

- Knowledge about **what** (such as differences in customer preferences)
- Knowledge about **why** (e.g., understanding how culture differences affect cross-cultural understanding)
- Knowledge about **how** (e.g., management skills, such as delegating responsibilities)
- Knowledge about **when** (e.g., knowledge about the effect of timing)
- Knowledge about **who** (e.g., relationships created over the life of an assignment).³¹

Berthoin also points out that expatriate experience not only brings about knowledge about culture differences but also creates insights about HQ–subsidiary relations, from which ideas about improving business could be derived.³² However, as found by Lazarova and Tarique, "repatriates' motivation to contribute to collective organizational learning is primarily driven by the fit between their individual career objectives and the career development opportunities offered by the organization upon return."³³ They found that several conditions have to be met in order to successfully transfer knowledge: first, that the repatriates have to (a) have valuable knowledge to transfer and (b) be motivated to transfer that knowledge; secondly, that organizations need to (a) have the right tools to capture knowledge, and (b) create the right incentives for repatriates to share their knowledge. Knowledge transfer is optimized when the type of knowledge gained by repatriates is matched by the right knowledge transfer mechanisms—for example, by assigning repatriates to strategic teams—and when career opportunities provided by the organization are congruent with repatriate career goals and aspirations.³⁴ Exhibit 10-1 illustrates the conditions and process by which knowledge may be successfully integrated into the organization.

The company should therefore position itself to benefit from that enhanced management knowledge if it wants to develop a globally experienced management cadre—an essential ingredient for global competitiveness—in particular where there is a high degree of shared learning among the organization's global managers. If the company cannot retain good returning managers, then their potential shared knowledge is not only lost but also conveyed to another organization that hires that person. This can be very detrimental to the company's competitive stance. Some companies are becoming quite savvy about how to use technology to utilize shared knowledge to develop their global management cadre, to better service their customers, and—as a side benefit—to store the knowledge and expertise of their managers around the world in case they leave the company. That knowledge, it can be argued, is an asset in which the company has invested large amounts of resources. One such savvy company is Booz-Allen & Hamilton, which instituted a Knowledge On-Line (KOL) intranet as a means to enhance knowledge sharing among its employees worldwide and to improve client service. By using its intranet to link islands of information separated by geography and platform-specific applications, the renowned consulting firm has enabled its 2,000 private sector consultants to collect and share firm-wide their best thoughts and expertise.³⁵

EXHIBIT 10-1 Variables Influencing Success of Knowledge Transfer from Repatriated Manager

Black and Gregersen's research of 750 U.S., European, and Japanese companies concluded that those companies that reported a high degree of job satisfaction and strong performance, and that experienced limited turnover, used the following practices when making international assignments:

- They focus on knowledge creation and global leadership development.
- They assign overseas posts to people whose technical skills are matched or exceeded by their cross-cultural abilities.
- They end expatriate assignments with a deliberate repatriation process.³⁶

A successful repatriation program, then, starts before the assignment. The company's top management must set up a culture that conveys the message that the organization regards international assignments as an integral part of continuing career development and advancement, and that it values the skills of the returnees. The company's objectives should be reflected in its long-range plans, commitment, and



UNDER THE LENS

*Expatriates' Careers Add to Knowledge Transfer*³⁷

*Brazil's distinctive culture, the lack of English spoken at street level and the country's labyrinthine politics and bureaucracy make it hard to import foreign talent. Meanwhile, the global financial crisis is also prompting more Brazilian expatriates to consider going back.*³⁸

Developments around the world and in an expatriate's "original" country can redirect an expatriate's career choices in unexpected ways, and at the same time affect the firms involved. Such was the case for Casio Calil. As reported in the *Financial Times*, he left Brazil in 1987, in very poor economic times, to seek his fortune elsewhere. After stints in Japan, Australia, and Ireland, he went to New York and in 2005 took a job with J. P. Morgan's investment bank. Since then, through his business contacts in Brazil, he realized that the expanding economy and opportunities in Brazil made a move back home very attractive. So, in 2011, he found himself head of J. P. Morgan Asset Management in Sao Paulo. He is now one of many Brazilians bringing their international experience and knowledge back to help a rapidly growing country with a shortage of management talent.³⁹

Sometimes those world developments are less positive, causing unwanted upheaval to the lives of expats and their families. Such has been the case in Libya. After booming with international businesses taking advantage of the oil-rich country, the war to overthrow Col. Gaddafi drove out foreign businesses and their expatriates and families, some of whom had come to regard it as home. In 2012, after a year of disrupted lives, those expatriates were gradually going back, and hoping that the business climate would improve after elections in June 2012. If not . . .

*The challenges for conducting business in Libya under its old rules are daunting. Regulators required companies to hire large proportions of Libyan workers and managers even if they were unqualified. Land ownership was impossible. Even majority ownership in joint ventures did not translate into authority over strategic decisions.*⁴⁰

Similar upheavals were experienced by expatriates in Japan, and, of course, the Japanese themselves, during their triple disaster in 2011 comprised of the earthquake, tsunami, and nuclear meltdown. Foreign companies naturally wanted to bring their staff out of danger, and, of course, the expatriates wanted to get their families out of harm's way, when the U.S. embassy sent in planes to ferry them out. However, the Japanese felt betrayed by the expatriates leaving while they worked through the crisis. In their anger they were calling those who left "flyjin" as a take-off from their term "gaijin," meaning foreigner. The anger the Japanese felt toward those who left is largely based on the difference between the cultural attitude of the Japanese that the company and the family are almost one entity, compared with that in the West, where family comes before the company. One expat who clearly recognized this was Gerry Dorizas, who said . . .

*"If I had left as the president, my role as a leader would have been diminished," said Gerry Dorizas, the president of Volkswagen AG's operations in Japan, who has been in that role four years. "We've been very transparent."*⁴¹

There is no doubt that the events in Japan and Libya, rare as they are, have proven to add valuable experience and knowledge transfer for those expatriates and their companies about how to prepare for and deal with such events and their repercussions.

compensation on behalf of the expatriate. GE sets a model for effective expatriate career management. With its 500 expatriates worldwide, it takes care to select only the best managers for overseas jobs and then commits to placing them in specific positions upon reentry. The following Under the Lens section illustrates some expatriates' experiences that contribute to their firms' store of knowledge.

GLOBAL MANAGEMENT TEAMS

MNCs realize it is essential to maximize their human assets in the form of global management teams so they can share resources and manage the transnational transfer of knowledge. The term **global management team** describes a collection of managers in or from several countries who must rely on group collaboration if each member is to experience optimum success and goal achievement. Whirlpool International, for example, is a U.S.-Dutch joint venture, with administrative headquarters in Comerio, Italy, where it is managed by a Swede and a six-person

management team from Sweden, Italy, Holland, the United States, Belgium, and Germany. To achieve the individual and collective goals of the team members, international teams must “provide the means to communicate corporate culture, develop a global perspective, coordinate and integrate the global enterprise, and be responsive to local market needs.”⁴² The role and importance of international teams increase as the firm progresses in its scope of international activity. Similarly, the manner in which multicultural interaction affects the firm’s operations depends on its level of international involvement, its environment, and its strategy.

The team’s ability to work effectively together is crucial to the company’s success. In addition, technology facilitates effective and efficient teamwork around the world. This was found by the Timberland U.K. sales conference planning team. In the past, the company’s large sales conferences were cumbersome to organize because their offices were in France, Germany, Spain, Italy, and the United Kingdom. Then the team started using the British Telecom (BT) Conference Call system for the arrangements, which saved them much travel and expense. The company subsequently adopted the BT Conference Call system for the executive team’s country meetings.⁴³ Teleconferencing and videoconferencing are now much of the way of life for global businesses. However, research indicates that face-to-face meetings are the best way to kick off a virtual team project so that the members can agree on goals and schedules and who is responsible for what. IBM project teams start with all members in a personal meeting to help to build an understanding of the other members’ cultures and set up a trusting relationship.⁴⁴

For global organizations and alliances, the same cross-cultural interactions hold as in MNCs, and, in addition, considerably more interaction takes place with the external environment at all levels of the organization. Therefore, global teamwork is vital, as are the pockets of cross-cultural teamwork and interactions that occur at many boundaries.⁴⁵ For the global company, worldwide competition and markets necessitate global teams for strategy development, both for the organization as a whole and for the local units to respond to their markets.

When a firm responds to its global environment with a global strategy and then organizes with a networked “glocal” structure (see Chapter 8), various types of cross-border teams are necessary for global integration and local differentiation. These include teams between and among headquarters and subsidiaries; transnational project teams, often operating on a “virtual” basis; and teams coordinating alliances outside the organization.⁴⁶ In joint ventures, in particular, multicultural teams work at all levels of strategic planning and implementation, as well as on the production and assembly floor. Clearly, the team’s success is highly dependent on the members’ ability to understand the culture and communication style of members in other countries. The United Kingdom is one example where considerable differences in behavior, expectations of business protocol, and communication are often dismissed by other Westerners because of the assumption of similarity between English-speaking countries. This brings to mind a quote often attributed to Winston Churchill, “Britain and America are two nations divided by a common language.”

“Virtual” Transnational Teams

*Virtual groups, whose members interact through computer-mediated communication systems (such as desktop video conferencing systems, e-mail, group support systems, internets, and intranets), are linked together across time, space, and organizational boundaries.*⁴⁷

As illustrated in the diagram, advances in communication now facilitate **virtual global teams**, a horizontal networked structure, with people around the world conducting meetings and exchanging information via the Internet, enabling the organization to capitalize on 24-hour productivity. In this way, too, knowledge is shared across business units and across cultures.⁴⁸ The advantages and cost savings of virtual global teams are frequently offset by their challenges—including cultural misunderstandings and the logistics of differences in time and space, as shown in Exhibit 10-2. Group members must build their teams while bearing in mind the group diversity and the need for careful communication.⁴⁹

Many of these challenges have been noted by virtual team leaders from Alcoa Company’s operations in 20 diverse countries. (Alcoa is the world leader in the production of aluminum and has 63,000 employees in 31 countries.) The teams are called parallel Global Virtual Teams (pGVTs)—teams that operate outside the formal structure, focusing on innovation and improvement. All their meetings are conducted electronically through videoconferencing, teleconferencing, discussion boards, e-mail, instant messaging, knowledge repositories, and planning and scheduling tools.

Virtual Transnational Teams



Source: Janos Levente/Shutterstock

EXHIBIT 10-2 Operational Challenges for Global Virtual Teams⁵¹
Geographic Dispersal:

The complexity of scheduling communications such as teleconferences and video conferences across multiple time zones, holidays, and so on. Lack of face-to-face meetings to establish trust or for cross-interaction processes such as brainstorming.

Cultural Differences:

Variations in attitudes and expectations toward time, planning, scheduling, risk taking, money, relationship building, and so on. Differences in goal sets and work styles arising out of such variables as individualism/collectivism; the relative value of work compared with other life factors; and variable sets of assumptions, norms, patterns of behavior.

Language and Communications:

Translation difficulties, or at least variations in accents, semantics, terminology, or local jargon. Lack of personal and physical contact, which greatly inhibits trust and relationship building in many countries; the social dynamics change. Lack of visibility of nonverbal cues makes interpretation difficult and creates two-way noise in the communication process.

Technology:

Variations in availability, speed, acceptability, and cost of equipment necessary for meetings and communications through computer-aided systems. Variable skill levels and willingness to interact through virtual media.

There is clearly a cross-cultural issue here—one that is particularly important to the success of pGVTs as, more than other forms of team, their success vitally depends on all members contributing and debating ideas.

“LESSONS FROM ALCOA,”
ORGANIZATIONAL DYNAMICS.⁵⁰

In Cordery et al.’s studies of Alcoa’s teams, leadership problems were highlighted. One GVT leader described the problems in not being able to always interpret or understand the subtleties of language being expressed and to respond accordingly when sharing ideas, because of not being able to observe the body language of members. She observed, “People from some cultures will say, ‘yes’ even if they have not understood. They do not feel comfortable asking you to repeat what they have not understood, being in such a large group. Others will commit to do almost anything (quite willingly) in the meeting, but it doesn’t get done.”⁵²

A survey of 200 of Alcoa’s virtual team members by Cordery et al. revealed that they view successful team leaders as having the following skills: *Interpersonal facilitation*—the ability to build teams and resolve conflicts; *task facilitation*—the ability to convey goals and train team members to effectively use the collaborative technology; *resource acquisition*; and *external alignment/vision*—that is, being able to mesh the team’s activities with the organization’s goals.⁵³

In a separate survey of 440 training and development professionals across a variety of industries conducted by Rosen, Furst, and Blackburn, the respondents indicated which training techniques for virtual teams were more effective than others, and reported which of those programs were most needed in the future. The relative priority of the training modules is shown in Exhibit 10-3. On the top of the list and considered very valuable, for example, was “Training on how to lead a virtual team meeting” and “Leader training on how to coach and mentor team members virtually,” as well as “how to monitor team progress, diagnose problems and take corrective action.”⁵⁴

Managing Transnational Teams

The ability to develop and lead effective transnational teams (whether they interact “virtually,” physically, or, as is most often the case, a mixture of both) is essential in light of the increasing proliferation of foreign subsidiaries, joint ventures, and other transnational alliances. The

EXHIBIT 10-3 Virtual Team Training

Importance of Virtual Team Training Modules (in order of value and effectiveness)

- Training on how to lead a virtual team meeting
- Leader training on how to coach and mentor team members virtually
- Training on how to monitor team progress, diagnose team problems, and take corrective actions
- Training to use communications technologies
- Leader training on how to manage team boundaries, negotiate member time commitments with local managers, and stay in touch with team sponsors
- Training on how to establish trust and resolve conflicts in virtual teams
- Communications skills training—cultural sensitivity, etc.
- Team-building training for new virtual teams
- Training to select the appropriate technologies to fit team tasks
- Leader training on how to evaluate and reward individual contributions on the virtual team
- Training on how to select virtual team members, establish a virtual team charter, and assign virtual team roles
- Realistic preview of virtual team challenges
- Training on what qualities to look for in prospective virtual team members and leaders

Source: Based on B. Rosen, S. Furst, and R. Blackburn, “Training for Virtual Teams: An Investigation of Current Practices and Future Needs,” *Human Resources Management* 45, no. 2 (2006): 229–247.

primary corporate question is how to integrate a diverse pool of cultural values, traditions, and norms in order to be competitive. These challenges were experienced when Nomura, Japan's largest investment bank, acquired most of Lehman Brothers' operations in Asia, Europe, and the Middle East in October 2008, after Lehman's collapse. Nomura had to absorb hundreds of Lehman employees immediately. Although Nomura is the acquirer, it is trying to transform its own culture to be more globally competitive. As observed by one manager:

Nomura has "a completely domestic culture" . . . one based on Japanese customs of employment, and where company loyalty is strong, decision-making is slow and tolerance for risk is low.⁵⁵

The cultural divide was being felt by both the Japanese and the Americans trying to work together. In particular, the Japanese were shocked when Nomura's management introduced American-style pay and career structures.⁵⁶

Teams comprising people located in far-flung operations are faced with often-conflicting goals of achieving greater efficiency across those operations, responding to local differences, and facilitating organizational learning across boundaries; conflicts arise based on cultural differences, local work norms and environments, and varied time zones. A study by Joshi et al. of a 30-member team of human resource (HR) managers in six countries in the Asia-Pacific region showed that network analysis of the various interactions among team members can reveal when and where negative cross-cultural conflicts occur, and thus provide top management with information for conflict resolution so that a higher level of synergy may be attained among the group members. The advantages of synergy include a greater opportunity for global competition (by being able to share experiences, technology, and a pool of international managers) and a greater opportunity for cross-cultural understanding and exposure to different viewpoints. The disadvantages include problems resulting from differences in language, communication, and varying managerial styles; complex decision-making processes; fewer promotional opportunities; personality conflicts, often resulting from stereotyping and prejudice; and greater complexity in the workplace.⁵⁷ In the Joshi study, the greatest conflict, and therefore lack of synergy, was not, as one would expect, resulting from the headquarters-subsidiary power divide. Rather, the critical conflicts were between the Country A subsidiary and Country B subsidiary, given the required communication and workflow patterns between them. (Names were kept confidential so that individuals in the study would not be identified.)

What are other ways that management can ascertain how well its international teams are performing and what areas need to be improved?

In recognizing the areas needing better team management, executives in a study by Govindarajan and Gupta ranked five key tasks based on their level of importance, as show below:

Tasks for Global Business Teams⁵⁸

- Cultivating trust among members
- Overcoming communication barriers
- Aligning goals of individual team members
- Obtaining clarity regarding team objectives
- Ensuring that the team possesses necessary knowledge and skills

The managers also rated the level of difficulty to accomplish that task. The researchers concluded from their study that the ability to cultivate trust among team members is critical to the success of global business teams if they want to minimize conflict and encourage cooperation.⁵⁹

Following are some general recommendations the researchers make for improving global teamwork:

- Cultivating a culture of trust: one way to do this is by scheduling face-to-face meetings early on, even if later meetings will be "virtual."
- Rotating meeting locations: this develops global exposure for all team members and also legitimizes each person's position.
- Rotating and diffusing team leadership.

- Linking rewards to team performance.
- Building social networks among managers from different countries.⁶⁰

What other techniques do managers actually use to deal with the challenge of achieving cross-cultural collaboration in multinational horizontal projects? A comparative study of European project groups in several countries by Sylvie Chevie revealed three main strategies:⁶¹

- **Drawing upon individual tolerance and self-control:** In this R&D consortium, the Swiss manager treated all team members the same, ignoring cultural differences, and the team members coexisted with patience and compromise. Many of the members said they were used to multinational projects and just tried to focus on technical issues.
- **Trial-and-error processes coupled with personal relationships:** This is a specific strategy in which the project manager sets up social events to facilitate the team members getting acquainted with one another. Then, they discover, through trial and error, what procedures will be acceptable to the group.
- **Setting up transnational cultures:** Here the managers used the common professional, or occupational, culture, such as the engineering profession, to bring the disparate members together within a common understanding and process.

The managers in the study admitted their solutions were not perfect, but met their needs as best they could in the situation. Chevie suggests that, where possible, a “cultural mediator” should be used who helps team members interpret and understand one another and come to an agreement about processes to achieve organizational goals.⁶²

Whether in global management teams, as expatriates, or as host-country nationals, the importance of women as a valuable, and often-underutilized, resource, should not be overlooked in IHRM efforts to maximize the company’s global management cadre. Their role is explored in the following Management in Action feature.

Other women around the world in powerful positions include those in the Arab world, two of whom were described in a *Financial Times* article in June 2008:

Soha Nashaat, 41, in Dubai, who was appointed head of Barclays Private Bank, Middle East in 2006, was tasked with building the business from the ground up. Half-Egyptian, half-Syrian, she was raised in Kuwait and educated in the U.S., and her career, beginning in New York as an intern with Merrill Lynch in 1991, has echoed the international flavor of her upbringing.

Sheikha al-Bahar, in Kuwait, described as “the billion dollar banker,” has reached the summit of the Gulf’s financial community. She started as a trainee at NBK and now, as group general manager, corporate banking, oversees more than \$12 billion of assets and almost 150 employees.⁶³

However, while women’s advancement in some global companies is impressive, it is still true that there are limitations on managerial opportunities for many women in their own country—some more than others—and there are even more limitations on their opportunities for expatriate assignments. Research on expatriate assignments continues to show that females are disproportionately underrepresented in expatriate assignments.⁶⁴

Overall, more managerial opportunities are available for American women than for women in most other countries. However, even for American women, who now fill more than 46 percent of the managerial positions at home, commensurate opportunities abroad are still limited for them.⁶⁵

A report by the 2010 World Economic Forum stated that companies in the United States, Spain, Canada, and Finland lead the world in employing the largest numbers of women from entry level to senior management. Yet the report also found that, “despite increasing awareness of gender disparities in the workplace, women at many of the world’s top companies continued to lag behind their male peers in many areas, including pay and opportunities for professional advancement.”⁶⁶ In addition, the study found that overall only 5 percent of the chief executives of the 600 companies surveyed were women. Finnish companies were at the top with 13 percent, Norway and Turkey with 12 percent, and Italy and Brazil with 11 percent.⁶⁷

The reasons for the different opportunities for women among various countries can often be traced to the cultural expectations of the host countries—the same cultural values that keep women in these countries from the managerial ranks. Cultural expectations may



MANAGEMENT IN ACTION

The Role of Women in International Management

*The world's expatriate workforce is becoming increasingly female.*⁶⁸

While it is clear that women are increasingly making their way into the international management cadre, their numbers and clout vary greatly around the world.

The 2011 ranking by *Fortune* magazine of the most powerful women in business in the United States lists Irene Rosenfeld, Kraft Chairman and CEO, as number one, followed by Indra Nooyi, Pepsi's CEO, the Indian-born strategist and former CFO and president. The article also includes a separate list called "International Power 50" (the first twenty of those are listed in Exhibit 10-4). The *Fortune* surveyors conclude that "power knows no bounds for this diverse group."⁶⁹ The list includes the woman who built Australia's biggest bank (No. 2) and the Siemens executive (No. 4), the first woman to sit on the Siemens board in its 160-year history. GM Brazil Chief Grace Lieblein is No. 22. There are also many newcomers on the list from India and China. Chanda Kochhar (No. 5), for example, was responsible for the turnaround of ICICI Bank, India; in addition, she is serving as co-chair of the 2011 World Economic Forum annual meeting in Davos, Switzerland. She joined the bank in 1984 as a management trainee. "Her diligence and operational prowess caught the eye of K. V. Kamath, ICICI's longtime CEO, who became her mentor and advocate."⁷⁰

EXHIBIT 10-4 Women in Top Business Positions Around the Globe

Cynthia Carroll, CEO, Anglo American, Britain
 Gail Kelly, Managing Director and CEO, Westpac, Australia
 Marjorie Scardino, CEO, Pearson, Britain
 Barbara Kux, Member of Managing Board, Siemens AG, Germany
 Chanda Kochhar, Managing Director and CEO, ICICI Bank, India
 Guler Sabanci, Chairman and Managing Director, Sabanci Holding, Turkey
 Maria Ramos, Group CEO, ABSA, South Africa
 Sock Chua Koong, CEO, Singapore Telecommunications, Singapore
 Ornella Barra, Chief Executive, Pharmaceutical Wholesale Division, Alliance Boots, Britain
 Annika Falkengren, President and CEO, SEB, Sweden
 Ho Ching, Executive Director and CEO, Temasek, Singapore
 Marina Berlusconi, Executive Chairman, Fininvest, Italy
 Nancy McKinstry, Chairman and CEO, Wolters Kluwer, Netherlands
 Ana Patricia Botin, Chief Executive, Santander UK, Britain
 Dominique Reiniche, President, Europe Group, Coca-Cola, France
 Dominique Senequier, Chairman and CEO, AXA Private Equity, France
 Yafang Sun, Chairman, Huawei Technologies, China
 Patricia Barbizet, CEO, Artemis Holding, Vice Chair, PPR, France
 Deborah Henretta, Group President, Asia and Global Specialty Channel, P&G Singapore
 Cher Wang, Chairman, HTC, Taiwan

Source: Based on the selections of "The International Power 50," *Fortune International (Europe)*, October 17, 2011, and the Web sites of the listed companies.

also contribute to different opportunities for women at the top levels between northern and southern Europe.

The North-South Divide in Europe, Inc. . . . Women are far more likely to serve on the boards of Scandinavia's biggest companies than Italy's or Spain's, and attitudes to their promotion remain deeply split.

FINANCIAL TIMES⁷¹

While, in 2010, top boardrooms were only 5 percent female in Italy, and 10 percent in Spain, women occupied 32 percent of board seats in the largest companies in Norway and 27 percent in Sweden. But overall, over half of major European companies have no female representation on their executive committees.⁷² The female composition on executive committees in 2010 was similarly divided, although overall lower than the female board composition:

Females on Executive Committees—2010 Sample:⁷³

- Sweden 17%
- U.S. 14%
- Britain 14%
- Norway 12%
- Russia 11%
- China 8%
- France 7%
- Spain 6%
- Brazil 6%
- Germany 2%
- India 2%

Given the powerful figure at the top in Germany—Chancellor Angela Merkel—it seems surprising to see the low female participation at the top levels, “but a decade of earnest vows from the corporate sector has not dented male-dominated Deutschland AG . . . all 30 DAX companies are run by men.”⁷⁴ Clearly, traditional cultural values about gender roles in Germany, as well as lifestyle and laws, can account for much of the disparity in Germany. For example, most children attend school only in the mornings, which restricts the ability for both parents to work. But, in spite of considerable recent government encouragement in its attempts to capitalize on females as an economic resource, only about 14 percent of German mothers with one child resume full-time work, and only 6 percent of those with two children. Even though the German birthrate—at 1.39—is the lowest in Europe, and even though there is a generous 14-month shared parental leave after childbirth, conservative family values that expect mothers to stay home with their children still predominate.

Opportunities for indigenous female employees to move up the managerial ladder in a given culture depend on the values and expectations regarding the role of women in that society. In Japan, for example, the workplace has traditionally been a male domain as far as managerial careers are concerned (although rapid changes are now taking place). To the older generation, a working married woman represented a loss of face to the husband because it implied that he was not able to support her. Women were usually only allowed clerical positions, under the assumption that they would leave to raise a family and perhaps later return to part-time work. Employers, thus, made little effort to train them for upper-level positions.⁷⁵ As a result, very few women workers have been in supervisory or managerial posts—thus limiting the short-term upward mobility of women through the managerial ranks.⁷⁶

The younger generation and increased global competitiveness have brought some changes to traditional values regarding women’s roles in Japan. More than 60 percent of Japanese women are now employed, including half of Japanese mothers. But how and when these cultural changes will affect the number of Japanese women in managerial positions remains to be seen. Currently, only about 9 percent are in managerial positions, compared with about 45 percent in the United States and 30 percent in Sweden, for example. One can understand the problems Japanese women face when trying to enter and progress in managerial careers when we review the experiences of Yuko Suzuki, who went into business for herself after the advertising company she worked for went bankrupt. However, she could not gain respect or even attention from customers, who often asked her who her boss was after she finished a presentation. She eventually hired a man to accompany her, which increased her sales. But, to her dismay, customers would only establish eye contact with him, even though she was doing the talking and he had nothing to do with the company.⁷⁷ Japanese labor economists observe that “Japan has gone as far as it can go with a social model that consists of men filling all of the economic, management and political roles.”⁷⁸

While the variation in women's roles around the world can be attributed to complex social and cultural issues, firms ought to be aware of the effects on their bottom line. Research by Catalyst showed that—of the 353 Fortune 500 companies they surveyed—the quartile with the largest proportion of women in top management had a return on equity of 35.1 percent higher than the quartile with the lowest female representation.⁷⁹

The lack of expatriates who are female or represent other minority groups does not reflect their lack of desire to take overseas assignments. Indeed, studies indicate women's strong willingness to work abroad and their considerable success on their assignments. For example, Adler's major study of North American women working as expatriate managers in countries around the world showed that they are, for the most part, successful.⁸⁰

The most difficult job seems to be getting the assignment in the first place. North American executives are reluctant to send women and minorities abroad because they assume they will be subject to the same culturally based biases as at home, or they assume a lack of understanding and acceptance, particularly in certain countries. Research on 52 female expatriate managers, for example, shows this assumption to be highly questionable. Adler showed, first and foremost, that foreigners are seen as foreigners; furthermore, a woman who is a foreigner (a *gaijin* in Japan) is not expected to act like a local woman. According to Adler and Izraeli, "Asians see female expatriates as foreigners who happen to be women, not as women who happen to be foreigners." The other women in the study echoed this view. One woman based in Hong Kong noted, "It doesn't make any difference if you are blue, green, purple, or a frog. If you have the best product at the best price, they'll buy."⁸¹

Women and minorities represent a significant resource for overseas assignments—whether as expatriates or as host-country nationals—a resource that is underutilized by U.S. companies. Adler studied this phenomenon regarding women and recommends that businesses (1) avoid assuming that a female executive will fail because of the way she will be received or because of problems experienced by female spouses; (2) avoid assuming that a woman will not want to go overseas; and (3) give female managers every chance to succeed by giving them the titles, status, and recognition appropriate to the position—as well as sufficient time to be effective.⁸²

WORKING WITHIN LOCAL LABOR RELATIONS SYSTEMS

If you have to close a plant in Italy, in France, in Spain or in Germany, you have to discuss the possibility with the state, the local communities, the trade unions; everybody feels entitled to intervene . . . even the Church.

JACOB VITTORELLI,
FORMER DEPUTY CHAIRMAN OF PIRELLI⁸³

An important variable in implementing strategy and maximizing host-country human resources for productivity is that of the labor relations environment and system within which the managers of a multinational enterprise (MNE) will operate in a foreign country. Differences in economic, political, and legal systems result in considerable variation in labor relations systems across countries. It is the responsibility of the IHRM function to monitor the labor relations systems in host countries and advise local managers accordingly. In fact, that information should be considered as one input to the strategic decision of whether to operate in a particular country or region.

The Impact of Unions on Businesses

European businesses, for example, continue to be undermined by their poor labor relations and by inflexible regulations. As a result, businesses have to move jobs overseas to cut labor costs, resulting from a refusal of unions to grant any reduction in employment protection or benefits in order to keep the jobs at home. In addition, non-European firms wishing to operate in Europe have to carefully weigh the labor relations systems and their potential effect on strategic and operational decisions. However, some change may be on the horizon to provide relief to businesses in Europe as some unions grant concessions to firms in order to keep their jobs. Recently, unions in Germany, France, and Italy have been losing their battle to derail labor-market reforms by the governments in those countries, who are increasingly concerned that excess regulation and

benefits to workers are smothering growth opportunities. Firms such as the Swedish furniture company Ikea, for example, have set up plants abroad. Ikea opened its non-unionized plant in Danville, southern Virginia, where the unemployment rate is very high, and received incentive grants for \$12 million. However, in July 2011, employees at the plant voted 221 to 69 to allow the International Association of Machinists and Aerospace Workers union to negotiate salary and benefits with the retailer's manufacturing subsidiary, Swedwood. The union organizers claimed that Ikea's high corporate standards for employees stopped at the U.S. border and that employees were "grossly underpaid compared to their Swedish counterparts, suffer high injury rates, are forced to work overtime, and demoted or fired for expressing union sympathies."⁸⁴

The term **labor relations** refers to the process through which managers and workers determine their workplace relationships. This process may be through verbal agreement and job descriptions, or through a union's written labor contract, which has been reached through negotiation in **collective bargaining** between workers and managers. The labor contract determines rights regarding workers' pay, benefits, job duties, firing procedures, retirement, layoffs, and so on.

The prevailing labor relations system in a country is important to the international manager because it can constrain the strategic choices and operational activities of a firm operating there. The three main dimensions of the labor-management relationship that the manager will consider are (1) the participation of labor in the affairs of the firm, especially as this affects performance and well-being; (2) the role and impact of unions in the relationship; and (3) specific human resource policies in terms of recruitment, training, and compensation.⁸⁵ Constraints take the form of (1) wage levels that are set by union contracts and leave the foreign firm little flexibility to be globally competitive, (2) limits on the ability of the foreign firm to vary employment levels when necessary, and (3) limitations on the global integration of operations of the foreign firm because of incompatibility and the potential for industrial conflict.⁸⁶

Organized Labor Around the World

The percentage of the workforce in trade unions in industrialized countries has declined in the last decade, most notably in Europe. In the U.S., union membership fell from a third in 1950 to about 11.9 percent in 2010.⁸⁷ This global trend is attributable to various factors, including an increase in the proportion of white-collar and service workers as proportionate to manufacturing workers, a rising proportion of temporary and part-time workers, offshoring of jobs to gain lower wage costs, and a reduced belief in unions in the younger generations.⁸⁸ In addition, the global economic decline and loss of jobs has put downward pressure on union demands and power when the focus changed to job retention rather than increased benefits.

The numbers do not show the nature of the system in each country. In most countries, a single dominant industrial relations system applies to almost all workers. Both Canada and the United States have two systems—one for the organized and one for the unorganized. Each, according to Adams, has "different rights and duties of the parties, terms and conditions of employment, and structures and processes of decision making." Basically, in North America, an agent represents unionized employees, whereas unorganized employees can only bargain individually, usually with little capability to affect major strategic decisions or policies or conditions of employment.⁸⁹

The traditional trade union structures in Western industrialized societies have been in *industrial unions*, representing all grades of employees in a specific industry, and *craft unions*, based on certain occupational skills. More recently, the structure has been conglomerate unions, representing members in several industries—for example, the metal workers unions in Europe, which cut across industries, and general unions, which are open to most employees within a country.⁹⁰ The system of union representation varies among countries. In the United States, most unions are national and represent specific groups of workers—for example, truck drivers or airline pilots—so a company may have to deal with several different national unions. A single U.S. firm—rather than an association of firms representing a worker classification—engages in its own negotiations. In Japan, on the other hand, it is common for a union to represent all workers in a company. In recent years, company unions in Japan have increasingly coordinated their activities, leading to some lengthy strikes.

Industrial labor relations systems across countries can only be understood in the context of the variables in their environment and the sources of origins of unions. These include government regulation of unions, economic and unemployment factors, technological issues, and the

influence of religious organizations. Any of the basic processes or concepts of labor unions, therefore, may vary across countries, depending on where and how the parties have their power and achieve their objectives, such as through parliamentary action in Sweden. For example, collective bargaining in the United States and Canada refers to negotiations between a labor union local and management. However, in Europe collective bargaining takes place between the employer's organization and a trade union at the industry level.⁹¹ This difference means that North America's decentralized, plant-level, collective agreements are more detailed than Europe's industry-wide agreements because of the complexity of negotiating myriad details in multi-employer bargaining. In Germany and Austria, for example, such details are delegated to works councils by legal mandate.⁹²

The resulting agreements from bargaining also vary around the world. A written, legally binding agreement for a specific period, common in Northern Europe and North America, is less prevalent in Southern Europe and Britain. In Britain, France, and Italy, bargaining is frequently informal and results in a verbal agreement valid only until one party wishes to renegotiate.⁹³

Other variables of the collective bargaining process are the objectives of the bargaining and the enforceability of collective agreements. Because of these differences, managers in MNEs overseas realize that they must adapt their labor relations policies to local conditions and regulations. They also need to bear in mind that, while U.S. union membership has declined by about 50 percent in the last 20 years, in Europe, overall, membership is still quite high, particularly in Italy and the United Kingdom—though it, too, has been falling, but from much higher levels.

Most Europeans are covered by collective agreements, whereas most Americans are not. Unions in Europe are part of a national cooperative culture between government, unions, and management, and they hold more power than in the United States. Increasing privatization will make governments less vulnerable to this kind of pressure. It is also interesting to note that some labor courts in Europe deal separately with employment matters from unions and works councils.

In Japan, labor militancy has long been dead, since labor and management agreed 40 years ago on a deal for industrial peace in exchange for job security. Unions in Japan have little official clout, especially in the midst of the Japanese recession. In addition, not much can be negotiated, because wage rates, working hours, job security, health benefits, overtime work, insurance, and the like have traditionally been legislated. However, global competition is putting pressure on companies to move away from guaranteed job security and pay. Often, however, the managers and labor union representatives are the same people, a fact that serves to limit confrontation, as well as does the cultural norm of maintaining harmonious relationships.

In the industrialized world, tumbling trade barriers are also reducing the power of trade unions because competitive multinational companies have more freedom to choose alternative production and sourcing locations. Most new union workers—about 75 percent—will be in emerging nations, like China and Mexico, where wages are low and unions are scarce. However, in some countries, such as India, outmoded labor laws are very restrictive for MNEs, making it difficult to lay off employees under any circumstances and forcing foreign companies to be very careful in their selection of new employees.

In China, for example, in a surprising move, the government passed a new law that will grant power to labor unions, in spite of protests by foreign companies with factories there. The order was in response to a sharp rise in labor tension and protests about poor working conditions and industrial accidents.⁹⁴ The All-China Federation of Trade Unions claimed that foreign employers often force workers to work overtime, pay no heed to labor-safety regulations, and deliberately find fault with the workers as an excuse to cut their wages or fine them. The move, which underscores the government's growing concern about the widening income gap and threats of social unrest, is setting off a battle with American and other foreign corporations that have lobbied against it by hinting that they may build fewer factories in China.⁹⁵

Protests arose after Wal-Mart Stores, the world's biggest retailer, was forced to accept unions in its Chinese outlets; other MNCs then joined the effort to get the Chinese government to reverse its decision. State-controlled unions in China have traditionally not wielded much power; however, after years of reports of worker abuse, the government seems determined to

give its union new powers to negotiate worker contracts, safety protection, and workplace ground rules.⁹⁶ However, in spite of such well-publicized incidences, the union situation in China is generally regarded as *The Economist* states in the following:

In name, the All-China Federation of Trade Unions (ACFTU) is a vast union bureaucracy running from the national level to small enterprises. In practice it is controlled by the Communist Party at the national level and, in companies, is mostly a tool of the management.

THE ECONOMIST.⁹⁷

Workers' basic rights for reasonable working conditions, safety, and even the right to get paid are often ignored by Chinese managers.

*Less than two years after the worker suicides at electronics giant Foxconn and a strike at Honda suppliers in Guangdong province, labor troubles are again roiling China.*⁹⁸

BUSINESS WEEK,
DECEMBER 19, 2011.

At Foxconn Technology, for example, which is a major supplier to several electronics giants such as Hewlett Packard, Apple, and Microsoft, there were large protests in January 2012 by workers at its Wuhan plant that involved threats from some workers to commit suicide. The employees were protesting that they had been forced to work long hours under poor conditions with little pay. Foxconn resolved the dispute and, under pressure from Apple and other companies, pledged to improve working conditions in China.⁹⁹ Increasing protests and strikes across China are partly attributed to more awareness of labor laws, as well as inflationary pressures. The next day Apple, following the lead of companies such as Intel and Nike, released a list of its major suppliers, including a list of troubling practices at some of its suppliers.¹⁰⁰

Apple said in the report that it recently became the first technology company to join the Fair Labor Association, a nonprofit group that aims to improve conditions in factories around the world.

INTERNATIONAL HERALD TRIBUNE,
JANUARY 14, 2012.

However, because problems occur in factories that are outsourced by Apple's suppliers, or which supply parts to the suppliers, retaining control and oversight is very difficult. Hopefully, as discussed in Chapter 2, the improved social responsibility of foreign firms operating in China might exert pressure for better working conditions for Chinese employees. "Meanwhile, the government is expanding the Party-controlled official union. Policymakers want 80% of all companies to have collective bargaining agreements by 2013."¹⁰¹

Historically, the existence of unions in the West has been linked closely to improved social responsibility toward workers, and countries around the world are beginning to catch up as far as improved conditions for workers. This happens when unions are permitted and have some power, or when governments put some pressure to improve life for workers so that unions will not take hold. However, strict adherence to union regulations is often traded-off by all parties in order for the local factory to remain competitive and viable and thus provide jobs and a reasonable level of living conditions compared to those experienced previously. This connection is illustrated in the following feature, *Under the Lens: Vietnam—The Union Role in Achieving Manufacturing Sustainability and Global Competitiveness*.

Convergence Versus Divergence in Labor Systems

*The world trade union movement is poised to follow the lead of transnational companies, by extending its reach and throwing off the shackles of national boundaries. Unions are about to go global.*¹⁰²

In October 2006 the International Trade Union Confederation (ITUC) was formed in Vienna, comprising the affiliated organizations of the former ICFTU (International Confederation of Free Trade Unions) and WCL (World Confederation of Labor), plus eight other national trade union organizations, to form a global body.¹⁰³ The ITUC is the world's largest trade union and, as of



UNDER THE LENS

Vietnam—The Union Role in Achieving Manufacturing Sustainability and Global Competitiveness

In most aspects, Vietnam has been gone from the attention of Americans for an entire generation. The country is, however, open for business—and business is booming. Capital is flowing in large amounts from Asia Pacific interests based in Singapore, Japan, Australia, Taiwan, and South Korea. The U.S. is Vietnam's seventh-largest foreign direct investment country, primarily through apparel and footwear manufacturing.

FAST DEVELOPMENT SINCE 2000

Vietnam's appearance as a global competitor is comparatively recent. After the North and South were united in 1975, the country languished for ten years. Finally in 1986, the Vietnamese government woke up and initiated an overall economic renewal policy, known as *doi moi*. Business privatization was encouraged, commerce restrictions came down, and relations with other countries were normalized. It has only been since 2000 that their stock market has been established. Moving rapidly from there, they have been admitted to the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) and to the World Trade Organization (WTO). Trade relations with the U.S. were normalized in 2006. The results are that Vietnam has gone from triple-digit annual inflation and the inability to grow enough food even for its own use, to single-digit inflation and becoming a mass exporter of both agricultural and manufactured goods.

Major components of their manufacturing for export are footwear and apparel. Unfortunately, most of what the West sees of these types of manufacturing operations comes through non-governmental organizations (NGOs), whose agendas are often far from being unbiased. The purpose of this author's visit in June, 2011 was to see if low labor costs are synonymous with exploitation of workers.

It is important to note that footwear and apparel manufacturing sites in Vietnam are frequently offshored operations owned by outsourced contractors from Taiwan and South Korea. This puts the actual production and labor management considerably removed from the oversight and control of the companies whose brands are being manufactured. Images of sweatshops and exploitation are generally associated with offshored apparel manufacturing.

FIGURE 10-1 Not the Comfort Inn, But Even the Bosses Don't Live this Well Back on the Rice Farm



Source: Photo by Dr. Robert Buchanan, used with permission.

MODERN INDUSTRIAL PARKS

In visiting Ho Chi Minh City in 2011, the industrial developments look quite modern. Closest to the city is the Saigon High Tech Park, which is in the early stages of developing a world-class industrial park. Intel is in the process of a \$1 billion investment on those grounds. A few kilometers further out are the Linh Trung Processing Zone, Vietnam Singapore Industrial Park, and Song Than Park. Along with Western firms, such as Siemens and Kimberly Clark, are various apparel and footwear manufacturers owned by Asian outsourcers. The industrial parks are very similar to Western-style developments in terms of the grounds, infrastructure, cleanliness, and the spaciousness of the layouts. The main difference is the size of the buildings, some of which are enormous four-level structures containing as many as 10,000 workers at any given time. At 6:00 a.m. a sea of humanity floods the roadways, mostly on foot but many on motorbikes carrying up to three passengers. Workers clock in for 12-hour shifts, and factories operate on a 24-hour basis when orders and deadlines are high. Employment turnover is very high, but jobs are plentiful. Interestingly, the high turnover and high need for workers has not led to fast wage growth. Employers are finding an adequate supply of workers to keep their lines running.

WAGES AND HOUSING

The typical factory worker comes from farming provinces in order to earn higher wages. Workers start at \$80–85 per month, with more for experience and productivity. This is often double the potential in their home towns. Many workers will take the option to work 7-day weeks and beyond their 12-hour shifts when factory orders are high. They send as much of their wages home as possible. Workers like to take a yearly 20-day holiday to return home, often on a very long bus ride to the north of the country. Research by Dr. Rhys Jenkins found the migrant textile workers to be appreciative of their job situation, as it had raised their standard of living.¹⁰⁴

In a tour and interview with a Vietnamese housing owner, as well as several current tenants, the workers were observed to have satisfactory living accommodations, although understandably modest. Workers' rooms rent for \$30 per month, and are usually shared by four workers, making their housing cost about 25 cents per day or \$8 per month. This is just 10% of base wages. The rooms are clean, austere, and approximately the size of a budget hotel room, with an upper deck for sleeping. Residents cook and have running water downstairs, with a communal bathroom down the hall. The rooms are in single-story buildings, situated along covered, secure corridors. Out on the street, a multitude of vendors serve the food and service needs of this demographic. We observed nothing about these living arrangements that would be characterized as inhumane or even depressing. The housing owners are typically hard-working locals who bought the properties from their own savings, live on-site, and have a congenial, patriarchal relationship with their tenants.

GOVERNMENT OVERSIGHT AND CSR

The general consensus is that the Vietnam government is providing effective levels of oversight and threats to keep factories from being exploitative. Better Work Vietnam is an NGO sponsored by the World Bank and the International Labor Organization (ILO). It has been vocal and credible in its reporting. Their most recent report indicates widespread noncompliance with government overtime standards, as well as health and safety standards. They did not find child labor in any of the large factories. While labor unions are commonplace and protected by law, the reality is that the union officers in many factories are managerial staff. This fails the non-interference test.

Corporate Social Responsibility (CSR) is a luxury that only the largest manufacturers can afford. Nonetheless, the emergence of CSR to benefit Vietnamese workers can be quite similar to those of developed nations. An April, 2011 “Fun Run” in Ho Chi Minh City to raise safety awareness was sponsored by the ILO along with such companies as Abercrombie & Fitch, Levi's, Nike, and The Walt Disney Company. Entertainment, education, and an appearance by a Vietnam Idol winner were sponsored.

CONCLUSIONS

The upshot of these observations is that Vietnam appears to be a successful model for sustainable low-cost labor manufacturing. While it is debatable whether large apparel manufacturers really contribute much to the country overall, there is no question that the jobs they provide are beneficial to that category of worker. Hopefully unions can improve the conditions further for the workers while those plants can remain competitive and retain the jobs locally.

Source: Dr. F. Robert Buchanan, University of Central Oklahoma, used with permission.

2012, represents 175 million workers through its 308 affiliated organizations in 153 countries and territories.¹⁰⁵ Its objective is to provide “a countervailing force in a society that has changed enormously, with workers’ rights being flouted under the pressure created by the current trajectory of ‘race to the bottom’ globalization.”¹⁰⁶

Political changes, external competitive forces, increased open trade, and frequent moves of MNCs around the world are forces working toward convergence in labor systems. **Convergence** occurs as the migration of management and workplace practices around the world reduce workplace disparities from one country to another. This occurs primarily as MNCs seek consistency and coordination among their foreign subsidiaries and as they act as catalysts for change by “exporting” new forms of work organization and industrial relations practices.¹⁰⁷ It also occurs as harmonization is sought, such as for the EC countries, and as competitive pressures in free-trade zones, such as the NAFTA countries, eventually bring about demands for some equalization of benefits for workers.¹⁰⁸ It would appear that economic globalization is leading to labor transnationalism and will bring about changes in labor rights and democracy around the world.¹⁰⁹

Other pressures toward convergence of labor relations practices around the world come from the activities and monitoring of labor conditions worldwide by various organizations. One of these organizations is the International Labor Organization (ILO)—comprising union, employer, and government representation—whose mission is to ensure that humane conditions of labor are maintained. Other associations of unions in different countries include various international trade secretariats representing workers in specific industries. The activities and communication channels of these associations provide unions and firms with information about differences in labor conditions around the world.¹¹⁰

However, there are considerable forces for continued divergence of unions. These include government attitudes toward unions; union competition to attract foreign investment and provide jobs locally; different approaches to structuring unions and how to organize collective bargaining and deal with workers’ rights. Exhibit 10-5 shows the major forces for and against convergence in labor relations systems.

ADAPTING TO LOCAL INDUSTRIAL RELATIONS SYSTEMS

Although forces for convergence are found in labor relations systems around the world (as discussed previously), for the most part, MNCs still adapt their practices largely to the traditions of national industrial relations systems, with considerable pressure to do so. Those companies, in fact, act more like local employers, subject to local and country regulations and practices.

EXHIBIT 10-5 Trends in Global Labor Relations Systems

Dynamic Forces Acting on Forces for Global Convergence → Current System ← Forces to Maintain or Establish Divergent Systems	
Global competitiveness	National labor relations systems and traditions
MNC presence or consolidation initiatives	Social systems
Political change	Local regulations and practices
New market economies	Political ideology
Free-trade zones: harmonization	Cultural norms
(EU), competitive forces (NAFTA)	Competition for jobs
Technological standardization, IT	Collective bargaining methods
Declining role of unions	
Agencies monitoring world labor practices	

Although the reasons for continued divergence in systems seem fewer, they are very strong: Not the least of these reasons are political ideology and the overall social structure and history of industrial practices. In the European Union (EU), where states are required to maintain parity in wage rates and benefits under the Social Charter of the Maastricht Treaty, a powerful defense of cultural identity and social systems still exists, with considerable resistance by unions to comply with those requirements. Managers in those MNCs also recognize that a considerable gap often exists between the labor laws and the enforcement of those laws—in particular in less-developed countries.

THE NAFTA AND LABOR RELATIONS IN MEXICO

About 40 percent of the total workforce in Mexico is unionized, with about 80 percent of the workers unionized in industrial organizations that employ more than 25 workers. However, government control over union activities is very strong, and although some strikes occur, union control over members remains rather weak.¹¹¹ Most labor unions are affiliated with the Institutional Revolutionary Party (PRI) through the Confederation of Mexican Workers (Confederación de Trabajadores Mexicanos—CTM). In April 2011, the Teamsters Union charged that Mexico's oligarchs, led by President Felipe Calderon, were trying to take away workers' collective bargaining rights through various labor law reforms. The union charged that

*In reality, the growing power of corporations (enabled by NAFTA) has undermined those rights, especially in the maquiladora district in northern Mexico. Half of all Mexicans live in poverty, and even those with a formal job don't make much money.*¹¹²

TEAMSTER NATION,
APRIL 21, 2012.

MNCs are required by government regulation to hire Mexican nationals for at least 90 percent of their workforce; preference must be given to Mexicans and to union personnel. In reality, however, the government permits hiring exceptions. The HSBC Bank, for example, found the following:

In all Mexican companies the owner must employ a minimum of 90% Mexican workers in accordance with Mexican Federal Labor Law (MFL). In the case of technicians and professional workers, they must be Mexican; in the event that Mexican technicians or professional workers are not available, the business may temporarily hire a foreign worker, but both will then have the obligation of training a Mexican technician or professional worker in order to comply with the MFL. For management or director levels, the rule does not apply.¹¹³

Many foreign firms set up production in Mexico—utilizing the advantages of the NAFTA—at least in part for the lower wages and lower overall cost of operating there, and the Mexican government wants to continue to attract that investment, as it has for many years before NAFTA. Mexican workers claim that some of the large U.S. companies in Mexico violate basic labor rights and cooperate with pro-government labor leaders in Mexico to break up independent unions. Workers there believe that MNCs routinely use blacklists, physical intimidation, and economic pressure against union organization and independent labor groups that oppose Mexican government policies or the pro-government Confederation of Mexican Workers (CTM).

This example illustrates the complexities of labor relations when a firm operates in other countries—particularly when there are linkages and interdependence among those countries, such as through the NAFTA or the EU. Of interest are the differences among NAFTA nations in labor law in the private sector. For example, while the minimum wage in Mexico is far less than that in Canada or the United States, a number of costly benefits for Mexican workers are required, such as 15 days of pay for a Christmas bonus and 90 days of severance pay. For comparison, the following Comparative Management in Focus feature examines labor relations in Germany.



COMPARATIVE MANAGEMENT IN FOCUS

Labor Relations in Germany

IG Metall union and German government reaffirm their collaboration

DIETMAR HENNING, WWW.WSWS.ORG,

October 21, 2011.

Given the continuing EU crisis, and the deepest global economic crisis since the 1930s, there was considerable commitment to Germany's largest union, IG Metall, at its 2011 annual congress in Karlsruhe. "The union's executive used the occasion to confirm and celebrate its policy of class collaboration. Federal President Christian Wulff and Chancellor Angela Merkel (both from the Christian Democratic Union—CDU) came to the gathering to pay their respects."¹¹⁴

It is noteworthy that the German economy has done very well over the last couple of years—while the rest of Europe staggered—leading Angel Gurría, the O.E.C.D.'s secretary general, to say in a speech in Berlin in February 2012 that Germany's "growth model has been so successful in navigating through the stormy waters of the crisis."¹¹⁵ The German unemployment level fell to the lowest level in decades, while in the rest of Europe it went up. Part of that result is due to the fact that, in the labor system in Germany, companies tend to move employees to part-time status and give them continued training the rest of the time rather than laying them off. Also, the overtime pay of employees is often "banked" by the company to use when times are difficult and they have to reduce employees' hours. Unfortunately, many of the younger generation workers do not have permanent jobs; rather they have "contract," (temporary) jobs, which makes it easier for companies to let them go when the term of the contract ends.¹¹⁶

In spite of the commitment to IG Metall, Germany's **codetermination** law (*mitbestimmung*) is coming under pressure from German companies dealing with global competition, and as a result of global trends of outsourcing, industrial restructuring, and the expansion of the service sector.¹¹⁷ That pressure is increasingly taking the form of concession bargaining to keep jobs at home. Still, some companies—tired of restrictions on their strategic decisions and necessary job cuts—are sidestepping those restrictions by registering as public limited companies in the United Kingdom.¹¹⁸

Mitbestimmung refers to the participation of labor in the management of a firm. The law mandates representation for unions and salaried employees on the supervisory boards of all companies with more than 2,000 employees and "works councils" of employees at every work site. Those companies with 2,000 or more staff have to give employees half the votes; those with 500 employees or more have to give a third of supervisory board seats to union representatives.¹¹⁹ Unions are well integrated into managerial decision-making and can make a positive contribution to corporate competitiveness and restructuring; this seems different from the traditional adversarial relationship of unions and management in the United States. However, the fact is that German firms, in the form of affiliated organizations of companies, have to contend with negotiating with powerful industry-wide unions. Employment conditions that would be negotiated privately in the United States, for example, are subject to federal mandates in Germany—a model unique in Europe. The average metalworker, for example, earns around \$2,500 a month, works a 35-hour week, and has six weeks of annual vacation. Germans on average work fewer hours than those in any other country than the Netherlands.¹²⁰ Under pressure from global competition, German unions have incurred huge membership losses in the last decade—In 2010 there were 7.9 million members - 40 percent fewer than in 1990 - but that includes about 20 percent of retired union members.¹²¹ In fact, only 20 percent of employees in Germany are union members, compared to 28 percent in the United Kingdom and 67 percent in Denmark.¹²² As a result, the unions are now more willing to make concessions and trade flexibility for increased job security. This was the case in 2005 when the German engineering group Linde decided to build a factory in Eastern Europe to take advantage of lower wages there. However, Linde reversed the decision after the IG Metall trade union local decided to match the savings by working longer hours and taking less pay.¹²³

Union membership in Germany is voluntary, usually with one union for each major industry, and union power traditionally has been quite strong. Negotiated contracts with firms by the employers' federation stand to be accepted by firms that are members of the federation, or used as a guide for other firms. These contracts, therefore, result in setting the pay scale for about 90 percent of the country's workers.¹²⁴

The union works councils play an active role in hiring, firing, training, and reassignment during times of reorganization and change.¹²⁵ Because of the depth of works council penetration into personnel and work organization matters, as required by law, their role has been described by some

MAP 10-1 Germany and Western Europe



as “co-manager of the internal labor market.”¹²⁶ This situation has considerable implications for how managers of MNCs plan to operate in Germany. IG Metall (*Industriegewerkschaft Metall*—Industrial Union of Metalworkers) has nearly 2.4 million members. After losing about 400,000 members over the past two decades, the union experienced a slight growth this year of 4,000. IG Metall has traditionally negotiated guidelines regarding pay, hours, and working conditions on a regional basis. Then, works councils use those guidelines to make local agreements. In 2006 the bargaining role started to devolve to the local unit. IG Metall’s proactive role on change illustrates the evolving role of unions by leading management thinking instead of reacting to it. In addition, management and workers tend to work together because of the unions’ structure. Indeed, such institutional accord is a powerful factor in changing deeply ingrained cultural traits. However, as of 2009, with an increasingly competitive

(Continued)

business environment, IG Metall's traditional and inflexible views on labor relations, has led to a decline in membership and bargaining power.

Codetermination has clearly helped to modify German managerial style from authoritarian to something more akin to humanitarian, without, it should be noted, altering its capacity for efficiency and effectiveness.¹²⁷ This system compares to the lack of integration and active roles for unions in the U.S. auto industry—for example, conditions that limit opportunities for change.

Pay for German production workers has been among the highest in the world, about 150 percent of that in the United States and about ten times that in Mexico. German workers also have the highest number of paid vacation days in the world and prefer short workdays. However, in July 2004, Jürgen Peters, chairman of Germany's powerful IG Metall engineering trade union, announced the agreement with what was then DaimlerChrysler to accept smaller raises and increased working hours after the company threatened to move 6,000 jobs elsewhere.¹²⁸ The agreement followed one by 4,000 Siemens employees in June 2004 to extend their work week.

Foreign companies operating in Germany also have to be aware that termination costs—including severance pay, retraining costs, time to find another job, and so on—are very high, and that is assuming the company is successful in terminating the employee in the first place, which is very difficult to do in Europe. This was brought home to Colgate-Palmolive when it tried to close its factory in Hamburg. The company offered the 500 employees an average severance of \$40,000 each, but the union would not accept, and eventually Colgate had to pay a much higher (undisclosed) amount.

The German model, according to Rudiger Soltwedel of the Institute for the World Economy at Kiel, holds that competition should be based on factors other than cost.¹²⁹ Thus, the higher wage level in Germany should be offset by higher-value goods like luxury cars and machine tools, which have been the hallmark of Germany's products. To the extent that the West German unions have established the high-wage, high-skill, and high-value-added production pattern, they have also become dependent on the continued presence of that pattern.¹³⁰

Conflicting opinions over the value of codetermination are increasingly evident, as business practices become increasingly subject to EU policies. A major concern was that firms from other countries that were considering cross-border mergers would be discouraged by the EU statute that would oblige them to incorporate codetermination if the new company includes significant German interests.

CONCLUSION

The role of the IHRM department has expanded to meet the strategic needs of the company to develop a competitive global management cadre. Maximizing human resources around the world requires attention to the many categories and combinations of those people, including expatriates, inpatriates, host-country managers, third country nationals, global teams, and local employees. Competitive global companies need top managers with global experience and understanding. To that end, attention must be paid to the needs of expatriates before, during, and after their assignments in order to maximize their long-term contributions to the company.

Summary of Key Points

1. Expatriate career management necessitates plans for retention of expatriates during and after their assignments. Through retention, the firm can benefit from the knowledge and experiences attained on assignments; otherwise the next firm that hires the returnee will benefit from that knowledge. Support programs for expatriates should include information from and contact with the home organization, as well as career guidance and support after the overseas assignment.
2. The expatriate's spouse plays a crucial role in the potential retention and effectiveness of the manager in host locations. Companies should ensure the spouse's interest in the assignment, include him or her in the predeparture training, and provide career and family support during the assignment and upon return.
3. Global management teams offer greater opportunities for competition—by sharing experiences, technology, and international managers—and greater opportunities for cross-cultural understanding and exposure to different viewpoints. Disadvantages can result from communication and cross-cultural conflicts and greater complexity in the workplace.
4. Virtual global teams enable cost effective, rapid knowledge sharing and collaboration, but are fraught with cross-cultural and logistical challenges.

5. Women represent an underutilized resource in international management. A major reason for this situation is the assumption that culturally based biases may limit the opportunities and success of female managers and employees.
6. The labor relations environment, system, and processes vary around the world and affect how the international

manager must plan strategy and maximize the productivity of local human resources.

7. Labor unions around the world are becoming increasingly interdependent because of the operations of MNCs worldwide, the outsourcing of jobs around the world, and the “leveling of the playing field” for jobs.

Discussion Questions

1. What steps can the company’s IHRM department take to maximize the effectiveness of the expatriate’s assignment and the long-term benefit to the company?
2. Discuss the role of reverse culture shock in the repatriation process. What can companies do to avoid this problem? What kinds of skills do managers learn from a foreign assignment, and how can the company benefit from them? What is the role of repatriation in the company’s global competitive situation?
3. What are the reasons for the small numbers of female expatriates? What more can companies do to use women as a resource for international management?
4. What is a virtual global management team? How do the members interact? Discuss the advantages and the challenges faced by these teams. Give some suggestions as to how to maximize the effectiveness of virtual teams across borders.
5. Discuss the reasons behind the growing convergence and interdependence of labor unions around the world.

Application Exercise

Interview one or more managers who have held positions overseas. Try to find a man and a woman. Ask them about their experiences both in the working environment and in the foreign country generally. How did they and their families adapt? How

did they find the stage of reentry to headquarters, and what were the effects of the assignment on their career progression? What differences do you notice, if any, between the experiences of the male and the female expatriates?

Experiential Exercise

Form groups of six students, divided into two teams, one representing union members from a German company and the other representing union members from a Mexican company. These companies have recently merged in a joint venture, with the subsidiary to be located in Mexico. These union workers, all line supervisors, will be working together in Mexico. You

are to negotiate six major points of agreement regarding union representation, bargaining rights, and worker participation in management, as discussed in this chapter. Present your findings to the other groups in the class and discuss. (It may help to read the *Comparative Management in Focus: Motivation in Mexico* feature in Chapter 11.)

Internet Resources

Visit the Deresky Companion Website at www.pearsonhighered.com/deresky for this chapter’s Internet resources.

CASE STUDY

Expatriate Management at AstraZeneca

Over the years, AstraZeneca Plc (AstraZeneca) has developed a strong reputation for its expatriate management practices. Expatriate management at AstraZeneca went beyond tackling issues such as compensation, housing, issues related to the spouse’s career abroad, etc. It also took care to ensure that employees on international assignment were able to adapt well to the new environment and achieve a work/life balance. With the global economic situation continuing to be grim, AstraZeneca also began placing emphasis on a “more thoughtful planning and selection process” of candidates for international assignments.¹



Source: Deloitte Services LP.

AstraZeneca is the world's fifth-largest pharmaceutical company by global sales.² It is headquartered in London, UK and Södertälje, Sweden. For the year 2008, AstraZeneca's revenues were US\$31.6 billion and it employed around 66,000 employees. As of 2009, AstraZeneca had around 350 employees working on international assignments in 140 countries worldwide. These were employees who were on short-term, long-term, or commuter assignments.³ According to Ashley Daly (Daly), senior manager of international assignments for AstraZeneca in the U.S., the company's employees were mainly concentrated in Belgium, the U.S., and the UK, but they "also have a significant presence in the Asia-Pacific and Latin America regions."⁴ AstraZeneca's policy stipulates that for any international assignment, there had to be a business rationale. The company saw to it that the costs involved were acceptable, and that the career management of the employee during the assignment was consistent with personal development goals as well as business needs. The contractual arrangements for the assignment were also centrally managed.⁵ "From the outset, if there is not a clear sense of how the international assignment experience can be applied at the end of the assignment term—at least in broad terms—the business should strongly consider whether an international assignment should even move forward,"⁶ said Daly.

Once an assignment offer was made to a potential expat, AstraZeneca paired them up with an international assignment manager ("IA manager"), who briefed them on company policy and opportunities for cultural and language training. Before leaving for their international assignment, employees were provided training in a workshop that focused on relevant issues (such as leaving the destination location and returning back to the home country). The expats were given information about the culture of the destination country—particularly differences with the home country—as well as social considerations and do's and don'ts. If necessary, the employee and his/her spouse were given training in the local language. Tessi Romell (Romell), research and development projects and HR effectiveness leader at AstraZeneca, said that the company also helped connect new expats with those who had already served in that location.

Sometimes, follow-up workshops were held in the host country. Once on assignment, expats stayed in touch with their IA manager in addition to the manager they reported back to in the home country. AstraZeneca saw to it that expats were given the necessary flexibility required for them to achieve a work/life balance. "AstraZeneca is really good at allowing people to manage their own time and being aware that we are working across different time zones. It's always something that we try to take into consideration so we don't have people [taking care of work matters] in the middle of the night,"⁷ said Romell.

With AstraZeneca taking various initiatives on this front, there were few complaints about work/life balance among the company's expat population. Romell attributed this to the mechanisms the company had put in place to prepare the employees for life in a different country. "It's a combination of things that the company is doing and having a culture that is supportive of work/life balance, as well as encouraging individuals themselves to think about their own work/life balance,"⁸ she said. Experts too felt that the practices followed by AstraZeneca, such as preparing the employees for international assignments, providing them with support, and assigning IA managers, were effective. They lauded AstraZeneca's practices, which were in contrast to those of many companies that rushed employees to foreign assignments without adequate support. Chris Buckley, manager of international operations for St. Louis-based Impact Group Inc., pointed out that the expats knew that the organization was spending a lot of money on them and they might be wary about coming up with any complaints regarding their new assignment with their boss. In such a scenario, contact with the IA manager was useful, as it could encourage them to open up.

With the economic situation around the globe continuing to be grim, experts felt that organizations would be forced to take a second look at the costs associated with international staffing. Some felt that organizations would send fewer people on international assignments, or allot them to shorter terms abroad. They even predicted that the high compensation and benefits generally associated with foreign assignments could also see cuts. While AstraZeneca had also taken measures to cut costs (specifically tax costs) by sending employees on short-term assignments, Daly noted that this was not always possible. When the expat had a family and was being posted for a longer term, Daly pointed out that some of the elements of AstraZeneca's expat packages, such as comprehensive destination support and educational counseling for expatriate children, played a critical role in ensuring the employee's productivity. These supports ensured that the expatriate family was able to settle down in the host country. Not providing them could result in employees not being able to focus on their new job, putting the company's investment at risk. So, the company was not looking at this issue in terms of expenditures alone. The company also did not have any plans to decrease the number of its staff deployed internationally. According to Daly, "Our recent focus has been less on reducing numbers of international assignees and more on making the right decisions about who goes on assignment; why they go; and perhaps most important, how the skills and experience gained abroad will be leveraged in their next role, post assignment."⁹

Case Questions

1. Critically analyze AstraZeneca's expatriate management practices.
2. According to the *2007 Expatriate Work/Life Balance Survey*, 65 percent of expats report feeling the strain of managing the demands of work and home, leading to more anxieties at home and at the workplace. What steps can an organization take to mitigate this?
3. What decisions related to expatriates can organizations take to maximize the benefits to the company despite the ongoing economic recession? Do you think a company that paid more careful attention to selection could further boost their chances of success?

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This case was written by Debapratim Purkayastha, ICMR Center for Management Research (ICMR). It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. © 2010, ICMR. All rights reserved. Used with permission, 2012.