International Human Resources Management

After studying this chapter, you should be able to

1. Identify the types of organizational forms used for competing internationally.

2. Explain the economic, political-legal, and cultural factors in different countries that HR managers need to consider.

3. Explain how domestic and international HRM differ.

4. Discuss the staffing process for individuals working internationally.

5. Identify the unique training needs for international assignees and their employees.

6. Identify the characteristics of a good international compensation plan.

7. Reconcile the difficulties of home- and host-country performance appraisals.

8. Explain how labor relations differ around the world.
When you pick up a newspaper or turn on the TV, you’ll notice that stories are constantly being told about companies competing globally. These stories might include mergers of U.S. and international companies, such as Daimler-Benz and Chrysler a few years ago. Or they might highlight companies expanding into other markets, such as Starbucks in Asia or Wal-Mart in Mexico. Or the stories might focus on international companies gaining dominance here in the United States, such as Sony or Toyota. “No matter what kind business you run, no matter what size you are, you’re suddenly competing against companies you’ve never heard of all around the world that make a very similar widget or provide a very similar service,” as one global manager put it. In fact, nearly three-quarters of HR professionals from companies large and small in a wide range of industries and countries say they expect their company’s international business to grow in the coming years. Some of these companies are handling the challenge well. Others are failing miserably as they try to manage across borders. More often than not, the difference boils down to how people are managed, the adaptability of cultures, and the flexibility of organizations.

Up until this point in the book, we have emphasized HRM practices and systems as they exist in the United States. This is not so much an oversight on our part as it is a deliberate decision to explain the HR practice in the most fundamental manner possible. Nonetheless, the topic of international HRM is so important that we wanted to dedicate an entire chapter to its discussion. In this chapter we will observe that much of what has been discussed throughout this text can be applied to international operations, provided one is sensitive to the requirements of a particular international setting.

The first part of this chapter presents a brief introduction to international business firms. In many important respects, the way a company organizes its international operations influences the type of managerial and human resources issues it faces. In addition, we briefly describe some of the environmental factors that also affect the work of managers in a global setting. Just as with domestic operations, the dimensions of the environment form a context in which HRM decisions are made. A major portion of this chapter deals with the various HR activities involved in the recruitment, selection, development, and compensation of employees who work in an international setting.

Managing across Borders

International business operations can take several different forms. A large percentage carry on their international business with only limited facilities and minimal representation in foreign countries. Others, particularly Fortune 500 corporations, have extensive facilities and personnel in various countries of the world. Dell, for example, actually employs more people outside the United States than within it. Managing these resources effectively and integrating their activities to achieve global advantage is a challenge to the leadership of these companies.

Figure 15.1 shows four basic types of organizations and how they differ in the degree to which international activities are separated to respond to the local regions and integrated to achieve global efficiencies. The international corporation is essen-
In international Human Resources Management
tially a domestic firm that builds on its existing capabilities to penetrate overseas markets. Companies such as Honda, General Electric, and Procter & Gamble used this approach to gain access to Europe—they essentially adapted existing products for overseas markets without changing much else about their normal operations. (One such adaptation, for example, was P&G’s extremely successful introduction of a detergent brick used on washboards in India.)

A **multinational corporation (MNC)** is a more complex form that usually has fully autonomous units operating in multiple countries. Shell, Philips, and ITT are three typical MNCs. These companies have traditionally given their foreign subsidiaries a great deal of latitude to address local issues such as consumer preferences, political pressures, and economic trends in different regions of the world. Frequently these subsidiaries are run as independent companies, without much integration. The **global corporation**, on the other hand, can be viewed as a multinational firm that maintains control of operations back in the home office. Japanese companies, such as Matsushita and NEC, tend to treat the world market as a unified whole and try to combine activities in each country to maximize efficiency on a global scale. These companies operate much like a domestic firm, except that they view the whole world as their marketplace.

Finally, a **transnational corporation** attempts to achieve the local responsiveness of an MNC while also achieving the efficiencies of a global firm. To balance this “global/local” dilemma, a transnational uses a network structure that coordinates specialized facilities positioned around the world. By using this flexible structure, a transnational provides autonomy to independent country operations but brings these separate activities together into an integrated whole. For most companies, the transnational form represents an ideal, rather than a reality. However, companies such as Ford, Unilever, and Shell have made good progress in restructuring operations to function more transnationally.
Although various forms of organization exist, in this chapter we will generally refer to any company that conducts business outside its home country as an international business. The United States, of course, has no monopoly on international business. International enterprises are found throughout the world. A number of European and Pacific Rim companies have been conducting business on an international basis much longer than their U.S. counterparts. The close proximity of European countries, for example, makes them likely candidates for international trade. Figure 15.2 shows a list of some of the top international companies.  

**Figure 15.2 Top International Companies**

<table>
<thead>
<tr>
<th>MARKET VALUE (BILLIONS OF U.S. DOLLARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General Electric $286.10</td>
</tr>
<tr>
<td>2. Microsoft 263.99</td>
</tr>
<tr>
<td>3. ExxonMobil 244.93</td>
</tr>
<tr>
<td>4. Pfizer 244.89</td>
</tr>
<tr>
<td>5. Wal-Mart Stores 232.22</td>
</tr>
<tr>
<td>6. Citigroup 210.86</td>
</tr>
<tr>
<td>7. Johnson &amp; Johnson 161.36</td>
</tr>
<tr>
<td>8. Royal Dutch/Shell Group 158.48</td>
</tr>
<tr>
<td>9. BP 153.24</td>
</tr>
<tr>
<td>10. AIG 150.97</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SALES (BILLIONS OF U.S. DOLLARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wal-Mart Stores $244.52</td>
</tr>
<tr>
<td>2. ExxonMobil 204.51</td>
</tr>
<tr>
<td>3. General Motors 184.21</td>
</tr>
<tr>
<td>4. Royal Dutch/Shell 179.43</td>
</tr>
<tr>
<td>5. BP 178.72</td>
</tr>
<tr>
<td>6. Ford Motor 162.59</td>
</tr>
<tr>
<td>7. DaimlerChrysler 156.84</td>
</tr>
<tr>
<td>8. Toyota Motor 151.70</td>
</tr>
<tr>
<td>9. General Electric 150.97</td>
</tr>
<tr>
<td>10. Allianz 126.80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROFITS (BILLIONS OF U.S. DOLLARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Citigroup $15.32</td>
</tr>
<tr>
<td>2. General Electric 15.13</td>
</tr>
<tr>
<td>3. Altria Group 11.10</td>
</tr>
<tr>
<td>4. ExxonMobil 11.01</td>
</tr>
<tr>
<td>5. Royal Dutch/Shell 9.42</td>
</tr>
<tr>
<td>6. Bank of America 9.25</td>
</tr>
<tr>
<td>7. Pfizer 9.18</td>
</tr>
<tr>
<td>8. Wal-Mart Stores 8.04</td>
</tr>
<tr>
<td>9. Toyota Motor 7.90</td>
</tr>
<tr>
<td>10. Microsoft 7.83</td>
</tr>
</tbody>
</table>

These companies are in a strong position to affect the world economy in the following ways:

1. Their production and distribution extend beyond national boundaries, making it easier to transfer technology.
2. They have direct investments in many countries.
3. They have a political impact that leads to cooperation among countries and to the breaking down of barriers of nationalism.

### How Does the Global Environment Influence Management?

In Chapter 1, we highlighted some of the global trends affecting human resources management. One of the major economic issues we discussed was the creation of free-trade zones within Europe, North America, and the Pacific Rim. Twenty-five member countries now comprise the European Union (EU), whose goal is to facilitate the flow of goods, services, capital, and human resources across national borders in Europe in a manner similar to the way they cross state lines in the United States. A similar transition occurred within North America with the passage of the North American Free Trade Agreement (NAFTA) in 1994. NAFTA created the world’s largest free market. Since its passage, commerce between the United States, Canada, and Mexico has nearly tripled, growing twice as fast as U.S. trade with the rest of the world. There has been a great deal of debate about whether NAFTA has cost Americans jobs. Economists don’t deny that an estimated 500,000 to 1 million U.S. jobs have been lost, primarily in the manufacturing sector. But this is only part of the picture: The agreement has also resulted in lower product prices for Americans overall, giving them more money to spend, thereby stimulating other parts of the U.S. economy. The net result is that the United States has added an average of 2 million jobs a year since NAFTA’s passage—far more than the number it has lost.

Like NAFTA, numerous trade agreements, including the Association of Southeast Asian Nations (ASEAN), East Asia Economic Group, Asia-Pacific Economic Cooperation (APEC), and South Asian Association for Regional Cooperation (SAARC), have significantly facilitated trade among Asian countries, making Asia the fastest-growing region in the world. China—its fastest-growing country—has emerged as a dominant trade leader since instituting trade reforms in the late 1970s. In the last decade and a half, China’s economy has grown fourfold, drastically altering political and trading relations among nations. Some industry analysts estimate that the country now produces 50 percent of the world’s cameras, 30 percent of air conditioners and televisions, 25 percent of washing machines, and 20 percent of refrigerators worldwide. In addition, China’s 1.3 billion people represent a massive, largely untapped consumer market for global companies. Today more cars are sold in China than in Europe, for example. Driving this trend are big multinational corporations such as General Electric, Toyota, and Intel, which are building or expanding their manufacturing units in the country. But many smaller firms are heading to China as well. “It’s not so much that [companies] want to go East: They feel that they have no choice,” said one international HR staffing consultant. “They must be in China. It’s not a question of if, but a question of how.” In addition to China, India’s economy is also growing very quickly.
The fact that international corporations can choose the countries in which they do business or relocate operations generally results in the selection of countries that have the most to offer. In addition to economic factors, political-legal factors are a huge consideration. In many countries, particularly those in Africa, property rights are poorly protected by governments. Whoever has the political power or authority can seize others’ property with few or no repercussions. Civil unrest can also lead to the poor enforcement of property rights. This gives companies less incentive to locate factories or invest there. Another issue relates to intellectual property rights—rights related to patents, trademarks, and so forth. Despite the fact that private property rights are now generally enforced in China, intellectual property rights have seen little protection. For example, when General Motors formed a joint venture with a Chinese company to produce and sell a new automobile in the country, a knockoff version of the car could be seen on China’s streets even before GM and its partner were able to manufacture their first car. Environmental restrictions also make some countries more attractive to do business in than others.

Beyond the economic and political-legal issues just mentioned, a country’s cultural environment (communications, religion, values and ideologies, education, and social structure) also has important implications when it comes to a company’s decision about when and how to do business there. Because of language and culture similarities, many U.S. companies are finding Canada, Ireland, and the United Kingdom attractive places to locate their facilities, particularly call centers. Eastern Europe has also begun to attract interest because citizens there are well educated and largely possess English-speaking skills. Similarly, the U.S. military’s departure from Panama in recent years left that country with a bilingual workforce that is very attuned to the American work culture.

Figure 15.3 summarizes the complexity of the cultural environment in which HR must be managed. Culture is an integrated phenomenon. By recognizing and accommodating taboos, rituals, attitudes toward time, social stratification, kinship systems, and the many other components listed in Figure 15.3, managers stand a better chance of understanding the culture of a host country—a country in which an international corporation operates. Different cultural environments require different approaches to human resources management. Strategies, structures, and management styles that are appropriate in one cultural setting may lead to failure in another. Even in countries that have close language or cultural links, HR practices can be dramatically different. In some countries night shifts are taboo. In other countries employers are expected to provide employees with meals and transportation between home and work. In India, workers generally receive cash bonuses on their wedding anniversaries which with to buy their spouses gifts, and dating allowances are provided to unmarried employees. These are practices that would never occur to American managers and HR practitioners. Throughout this chapter we will discuss several HR issues related to adapting to different cultural environments.

**Domestic versus International HRM**

International HRM differs from domestic HRM in several ways. In the first place, it necessarily places a greater emphasis on functions and activities such as relocation, orientation, and translation services to help employees adapt to new and different environments outside their own countries and to help newly hired employees in foreign countries adapt to working for companies headquartered outside their borders. In years, past, the internationalization has grown at a faster pace than the interna-
International Human Resources Management

In the internationalization of the HRM profession, causing executives in the very best of companies to lament that their HR policies have not kept pace with the demands of global competition. But this is changing. Today, global HR management has become a front-and-center issue for a wide variety of firms. Many larger corporations, and even smaller ones doing business in key international markets, now have full-time HR managers devoted solely to assisting with the globalization process. British Airways, for example, has a team of HR directors who travel around the world to help country managers stay updated on international concerns, policies, and programs. Coca-Cola provides support to its army of HR professionals working around the world. A core HR group in the company's Atlanta headquarters holds a two-week HR orientation twice a year for the international HR staff. This program helps international HR practitioners share information about HR philosophies, programs, and policies established either in Coca-Cola's headquarters or in another part of the world that can be successfully adopted by others. Because doing business internationally can be extremely complex, many companies also hire international staffing

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**Figure 15.3** Cultural Environment of International Business
Global companies have the challenge of managing operations—and people—in many different countries. Firms such as Boston Global Consulting and Cendant Mobility, a Connecticut-based company, have expertise when it comes to relocating employees, establishing operations abroad, and helping with import/export and foreign tax issues.

HR information systems have also come a long way in terms of helping firms improve their international coordination. A good HR information system can facilitate communication, record keeping, and a host of other activities worldwide. Some HRISs are designed to track the whereabouts of employees traveling or on assignment. This can be important in the event of a transportation accident, a natural disaster such as a tsunami, a terrorist attack, or civil strife if evacuation plans must be implemented. Occasionally, however, even the seemingly simplest of cultural differences can be difficult to overcome when a company attempts to set up a global HRIS: When Lucent first rolled out a PeopleSoft system to more than 90 countries, the company’s managers found that the order of employees’ names was so important—and so varied—that it took two months to settle on a name format allowing employees to be entered into the system. As you can see, even seemingly small cultural differences can create major headaches for the international HR manager.

International Staffing

When a company expands globally, HR managers are generally responsible for ensuring that operations are staffed. There are three main ways a company can staff a new international operation. First, the company can send people from its home country. These employees are often referred to as expatriates, or home-country nationals. Second, it can hire host-country nationals, natives of the host country, to do the managing. Third, it can hire third-country nationals, natives of a country other than the home country or the host country.

Each of these three sources of overseas workers provides certain advantages and certain disadvantages. Most corporations use all three sources for staffing their multinational operations, although some companies exhibit a distinct bias for one or another of the three sources.
As shown in Figure 15.4, at early stages of international expansion, organizations often send home-country expatriates to establish activities (particularly in less-developed countries) and to work with local governments. This is generally very costly. Expatriate assignments cost companies, on average, $1 million over a three-year period. This can be three to five times what a domestic assignment costs. As a result, many companies are taking greater pains to more clearly outline the overall goal of the foreign assignment and its timetable for completion. Ingersoll-Rand, an international equipment maker, now carefully documents in detail what should be accomplished during an assignment abroad—whether the assignment is designed to enhance an assignee's leadership skills, improve productivity and sales targets abroad, transfer specific technology to a foreign operation, or staff it with local, expatriate, or third-country nationals.

In recent years, there has also been a trend to send expatriates on shorter, project-based assignments (two to twelve months versus one to three years) and to shift more quickly toward hiring host-country nationals. This has three main advantages:

1. Hiring local citizens is generally less costly than relocating expatriates.
2. Since local governments usually want good jobs for their citizens, foreign employers may be required to hire locally.
3. Most customers want to do business with companies (and people) they perceive to be local versus foreign.

Because U.S. companies want to be viewed as true international citizens, there has also been a trend away from hiring expatriates to head up operations in foreign countries, especially European countries. ABB, Eli Lilly, and PepsiCo, which have strong regional organizations, tend to replace their U.S. expatriate managers with local managers as quickly as possible. In addition to hiring local managers to head their foreign divisions and plants, more companies are using third-country nationals. Third-country nationals are often multilingual and already acclimated to the host
country’s culture—perhaps because they live in a nearby region. Thus, they are also less costly to relocate and sometimes better able to cope culturally with the foreign environment.

Companies tend to continue to use expatriates only when a specific set of skills is needed or when individuals in the host country require development. For example, after embarking on a joint venture in China with a formerly state-owned enterprise, Ingersoll-Rand discovered that it had to educate its Chinese employees not only on the company’s practices and culture, but also on free-market, Western business practices. This required the company’s expatriates to stay in China longer than planned.\(^1\) It’s important to note, however, that while top managers may prefer one source of employees over another, the host country may place pressures on them that restrict their choices. Such pressure takes the form of sophisticated government persuasion through administrative or legislative decrees designed to employ host-country individuals. Tax incentives, tariffs, and quotas are frequently implemented by the host country to encourage local hiring.

### Recruiting Internationally

Improved telecommunications and travel have made it easier to match up employers and employees of all kinds worldwide. As we mentioned earlier in the chapter, most of Dell’s employees work outside the United States. Rolls-Royce, headquartered in the United Kingdom, hires 25 percent of its 25,000 employees abroad. Because its customers come from around the globe, Rolls-Royce figures its workforce should as well. Airbus, the European commercial jet maker, recruits engineers from universities and colleges all over Europe. American-based Boeing’s need for engineers is so great that it also recruits internationally and has even opened a design center in Moscow. The trend is likely to continue as the populations in developed countries age and HR managers search for talent elsewhere. Even China, despite its massive population, faces labor shortages because laws there prohibit couples from having more than one child.

HR departments must be particularly responsive to the cultural, political, and legal environments both domestically and abroad when recruiting internationally. Companies such as Starbucks, Levi Strauss, Digital, and Honeywell have made a special effort to create codes of conduct for employees throughout the world to ensure that standards of ethical and legal behavior are known and understood. PepsiCo has taken a similar approach to ensuring that company values are reinforced (even while recognizing the need for adapting to local cultures). The company has four core criteria that are viewed as essential in worldwide recruiting efforts: (1) personal integrity, (2) a drive for results, (3) respect for others, and (4) capability. Zurich, a Swiss financial and insurance company with operations in the United States and Europe, makes sure its inbound U.S. assignees take diversity and sexual harassment courses. This training is rarely provided in other parts of the world.\(^1\)

In general, however, employee recruitment in other countries is subject to more government regulation than it is in the United States. Regulations range from those that cover procedures for recruiting employees to those that govern the employment of foreign labor or require the employment of the physically disabled, war veterans, or displaced people. Many Central American countries, for example, have stringent regulations about the number of foreigners that can be employed as a percentage of the total workforce. Virtually all countries have work permit or visa restrictions that...
apply to foreigners. A **work permit** or **visa** is a document issued by a government granting authority to a foreign individual to seek employment in that government’s country. Since 9/11 there has been a backlog in the number of visas granted to foreign workers and students entering the United States. U.S. managers complain that this is making it harder for them to hire top talent. Whatever the employee’s destination, HR managers need to ensure that work permits and visas are applied for early in the relocation process.\(^\text{14}\)

MNCs tend to use the same kinds of internal and external recruitment sources as in their home countries. At the executive level, companies use search firms such as Korn/Ferry and Heidrick & Struggles in the United States or Spencer Stuart in the U.K. At lower levels more informal approaches tend to be useful. While unskilled labor may be readily available in a developing country, recruitment of skilled workers may be more difficult. Many employers have learned that the best way to find workers in these countries is through referrals and radio announcements because many people lack sufficient reading or writing skills. Other firms use international recruiting firms to find skilled labor abroad. Some countries, in fact, require the employment of locals if adequate numbers of skilled people are available. Specific exceptions are sometimes granted (officially or unofficially) for contrary cases, as for Mexican farm workers in the United States and for Italian, Spanish, Greek, and Turkish workers in Germany and the Benelux countries (Belgium, the Netherlands, and Luxembourg). Foreign workers invited to perform needed labor are usually referred to as **guest workers**. In the United States, a law currently under consideration by Congress would allow foreign farm workers to enter the country and stay for three years, provided they have jobs lined up. Although hiring nonnationals may result in lower direct labor costs for a company, the indirect costs—those related to housing, language training, health services, recruitment, transportation, and so on—can be substantial. Some companies competing in industries with acute talent shortages are nonetheless finding the expenditures worthwhile. Nursing is one such industry. (See the case at the end of the chapter.)\(^\text{15}\)

### Apprenticeships

A major source of trained labor in European nations is apprenticeship training programs (described in Chapter 7). On the whole, apprenticeship training in Europe is superior to that in the United States. In Europe, a dual-track system of education directs a large number of youths into vocational training. The German system of apprenticeship training, one of the best in Europe, provides training for office and shop jobs under a three-way responsibility contract between the apprentice, his or her parents, and the organization. At the conclusion of their training, apprentices can work for any employer but generally receive seniority credit with the training firm if they remain in it. France has been able to draw on its “Grandes Ecoles” for centuries. Created during the Renaissance to fulfill a need that universities weren’t meeting at the time, the Grandes Ecoles educate prospective engineers up to the equivalent level of Master of Engineering. Snecma, an international equipment supplier headquartered in Paris, hires about 80 percent of its employees from the Grandes Ecoles.\(^\text{16}\)

### Staffing Transnational Teams

In addition to focusing on individuals, it is also important to note that companies are increasingly using transnational teams to conduct international business.
**Transnational teams** are composed of members of multiple nationalities working on projects that span multiple countries. General Electric’s LightSpeed VCT, a state-of-the-art medical scanner, was designed with input from cardiologists around the world. The machine’s innards were designed by GE engineers in four different countries, and the software to run it written by multiple teams working together from India, Israel, France, and Wisconsin. Teams such as these are especially useful for performing tasks that the firm as a whole is not yet structured to accomplish. For example, they may be used to transcend the existing organizational structure to customize a strategy for different geographic regions, transfer technology from one part of the world to another, and communicate between headquarters and subsidiaries in different countries. In GE’s case, the company realized its competitors were developing their own medical scanning technology more quickly. GE decided it could no longer afford to duplicate its efforts in different divisions around the world—that these groups would have to work together as a team.

Sometimes companies send employees on temporary assignments abroad as part of transnational teams lasting, say, a few months. This might be done to break down cultural barriers between international divisions or disseminate new ideas and technologies to other regions. In other instances employees are transferred for extended periods of time. Years ago, Fuji sent fifteen of its most experienced engineers from Tokyo to a Xerox facility in Webster, New York. Over a five-year period, the engineers worked with a team of American engineers to develop the “world” copier. The effort led to a joint venture that has lasted for decades. Fuji-Xerox now employs approximately 34,000 people globally at sixty member companies around the world.

The fundamental task in forming a transnational team is assembling the right group of people who can work together effectively to accomplish the goals of the team. For GE’s LightSpeed team, this frequently meant holding eight-hour global conference calls encompassing numerous time zones. (The call times were rotated so that no single team had to stay up all night for every call.) Many companies try to build variety into their teams in order to maximize responsiveness to the special needs of different countries. For example, when Heineken formed a transnational team to consolidate its production facilities, it ensured that team members were drawn from each major region within Europe. Team members tended to have specialized skills, and members were added only if they offered some unique skill that added value to the team.

## Selecting Employees Internationally

As you might imagine, selection practices vary around the world. In the United States managers tend to emphasize merit, with the best-qualified person getting the job. In other countries, however, firms tend to hire on the basis of family ties, social status, language, and common origin. The candidate who satisfies these criteria may get the job even if otherwise unqualified. Much of this is changing—there has been a growing realization among organizations in other nations that greater attention must be given to hiring those most qualified. In addition to a person’s qualifications, various other hiring laws, particularly those related to discrimination, are enforced around the world. Highlights in HRM 1 outlines some of the U.S. and international laws and pacts companies must adhere to when hiring in the United States and elsewhere. Labor union restrictions, which we will discuss later in the chapter, can also have an impact on hiring.
Selecting Global Managers

Selecting a global manager depends on a variety of different employment factors, including the extent of contact the manager will have with local citizens and the government and the degree to which the foreign environment differs from the home environment. For example, if the job involves extensive contacts with the community, as with a chief executive officer, this factor should be given appropriate weight. The magnitude of differences between the political, legal, socioeconomic, and cultural systems of the host country and those of the home country should also be assessed.

Levi Strauss has identified the following six skill categories for the global manager, or manager equipped to run an international business:

- Ability to seize strategic opportunities
- Ability to manage highly decentralized organizations
- Awareness of global issues
- Sensitivity to issues of diversity
- Competence in interpersonal relations
- Skill in building community

If a candidate for expatriation is willing to live and work in a foreign environment, an indication of his or her tolerance of cultural differences should be obtained. On the other hand, if local nationals have the technical competence to carry out the job successfully, they should be carefully considered for the job before the firm launches a search (at home) for a candidate to fill the job. As stated previously, most corporations realize the advantages to be gained by staffing international operations with host-country nationals wherever possible.

Selecting home-country and third-country nationals requires that more factors be considered than in selecting host-country nationals. While the latter must of course possess managerial abilities and the necessary technical skills, they have the...
advantage of familiarity with the physical and cultural environment and the language of the host country. Figure 15.5 compares the advantages and disadvantages of hiring global managers from these three different groups. The discussion that follows, however, will focus on the selection of expatriate managers from the home country, along with their compensation and performance appraisals.

Colgate-Palmolive, Whirlpool, and Dow Chemical have further identified a set of core skills that they view as critical for success abroad and a set of augmented skills that help facilitate the efforts of expatriate managers. These two types of skills are shown in Highlights in HRM 2. Many of these skills are not significantly different from those required for managerial success at home. Although in years past the average U.S. expatriate manager was an American-born Caucasian, more companies today are seeing the advantages of assigning expatriates depending on their ethnicity. But such a decision needs to be considered carefully. For example, an Indian candidate applying for a position in India may never have actually visited the country or may not relate well to the culture. Ultimately, the candidate best qualified for the job should be sent. Unfortunately, talented women are frequently overlooked for global managerial positions—perhaps because companies believe they will fare poorly in foreign, male-dominated societies or because they believe women have less desire to go abroad. Highlights in HRM 3 show some of the obstacles women face in being selected for an overseas assignment. However, many women who have been given international assignments have performed quite well. Because locals know how unusual it is for a woman to be given a foreign assignment, they frequently assume that the company would not have sent a woman unless she was the very best. In addition, because women expatriates are novel (particularly in managerial positions), they are very visible and distinctive and may even receive special treatment not given to their male colleagues.

Several steps are involved in selecting individuals for an international assignment, and the sequencing of these activities can make a big difference:

**Step 1: Begin with self-selection.** Employees should begin the process years in advance by thinking about their career goals and interest in international work. By beginning with self-selection, companies can more easily avoid the problems of forcing otherwise promising employees into international assignments where they would be unhappy and unsuccessful. For individuals with families, decisions about reloca-

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**Figure 15.5** Comparison of Advantages in Sources of Overseas Managers

<table>
<thead>
<tr>
<th>HOST-COUNTRY NATIONALS</th>
<th>HOME-COUNTRY NATIONALS (EXPATRIATES)</th>
<th>THIRD-COUNTRY NATIONALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less costly</td>
<td>Talent available within company</td>
<td>Broad experience</td>
</tr>
<tr>
<td>Preferred by host-country governments</td>
<td>Greater control</td>
<td>International outlook</td>
</tr>
<tr>
<td>Intimate knowledge of environment and culture</td>
<td>Company experience</td>
<td>Multilingualism</td>
</tr>
<tr>
<td>Language facility</td>
<td>Mobility</td>
<td>Experience provided to corporate executives</td>
</tr>
</tbody>
</table>

**core skills**
Skills considered critical to an employee’s success abroad

**augmented skills**
Skills helpful in facilitating the efforts of expatriate managers
tion are more complicated. Employees should seek information to help them predict their chances of success living abroad. Companies such as EDS and Deloitte & Touche give their employees self-selection instruments to help them consider the pros and cons of international assignments. Other companies give these tools to candidates' spouses as well. At Solar Turbines, a San Diego–based manufacturer of industrial gas turbines, a candidate's spouse and sometimes his or her children undergo a day of assessment to see how well they are likely to respond to an international assignment.22

Step 2: Create a candidate pool. After employees have self-selected, organizations can build a database of candidates for international assignments. Information in the database might include availability, languages, country preferences, and skills.

Step 3: Assess core skills. From the short list of potential candidates, managers can assess each candidate on technical and managerial readiness relative to the needs of the assignment. Although many factors determine success abroad, the initial focus should be on the requirements of the job.

### Highlights in HRM 2

#### Skills of Expatriate Managers

<table>
<thead>
<tr>
<th>CORE SKILLS</th>
<th>AUGMENTED SKILLS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience</td>
<td>Technical skills</td>
</tr>
<tr>
<td>Decision making</td>
<td>Negotiation skills</td>
</tr>
<tr>
<td>Resourcefulness</td>
<td>Strategic thinking</td>
</tr>
<tr>
<td>Adaptability</td>
<td>Delegation skills</td>
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<tr>
<td>Cultural sensitivity</td>
<td>Change management</td>
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<tr>
<td>Team building</td>
<td></td>
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<tr>
<td>Maturity</td>
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</tr>
</tbody>
</table>

### Highlights in HRM 3

#### Top Three Barriers for Women Attempting to Gain Global Managerial Experience

- Getting selected—the biggest hurdle to entering the global business arena
- Being perceived as less internationally mobile than men due to work and personal responsibilities
- Lack of mentors and networks on international assignments

Expatriate employees receive intensive training on their host countries, the cultural differences, negotiation tactics, business practices, everyday living, and other aspects of working and living successfully in a foreign country.

Step 4: Assess augmented skills and attributes. As shown in Figure 15.6, expatriate selection decisions are typically driven by technical competence as well as professional and international experience. In addition, however, an increasing number of organizations have also begun considering an individual's ability to adapt to different environments. Satisfactory adjustment depends on flexibility, emotional maturity and stability, empathy for the culture, language and communication skills, resourcefulness and initiative, and diplomatic skills.23

Even companies that believe they have selected the best candidates frequently experience high expatriate failure rates. Figure 15.7 shows the major causes of assignment failure. By far, the biggest factor tends to be a spouse's inability to adjust to his or her new surroundings.24 There are number of ways to improve the success of expatriate assignments. One important step is to involve spouses early on in the process. In addition, training and development for both expatriates and their spouses can have a big impact. We discuss this next.

Training and Development

Although companies try to recruit and select the very best people to send abroad, once they are selected it is often necessary to provide them with some type of training. Not only is this type of training important for expatriate managers, it is also important for the foreign employees they will ultimately supervise. To know and understand how the Japanese or Chinese negotiate contracts or how businesspeople from Latin America view the enforcement of meeting times, for example, can help expatriate managers and their employees deal with each other more successfully. The biggest mistake managers can make is to assume that people are the same every-
where. Corporations that are serious about succeeding in global business are tackling these problems head-on by providing intensive training. At Motorola this type of training is conducted at divisions worldwide by Motorola University, the company’s educational arm. All employees, including division heads, receive forty hours of training each year to learn, in part, how to work together as “Motorola People.”

Apart from developing talent for overseas assignments, most companies have found that good training programs also help them attract needed employees from the host countries. In less-developed countries especially, individuals are quite eager to receive the training they need to improve their work skills. One of the greatest contributions that the United States has made to work organizations is in improving the competence of managers. Americans have a facility for analytical reasoning that is part of their lives. They tend to make decisions on a rational basis, giving them a better background for decision making. Foreign nationals have generally welcomed

<table>
<thead>
<tr>
<th>Figure 15.6</th>
<th>Expatriate Selection Criteria</th>
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<tbody>
<tr>
<td>International experience</td>
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<tr>
<td>Professional experience</td>
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<tr>
<td>Interpersonal skills</td>
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<tr>
<td>Technical competence</td>
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<tr>
<td>Country experience</td>
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<tr>
<td>Language skills</td>
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<table>
<thead>
<tr>
<th>Figure 15.7</th>
<th>Causes of Expatriate Assignment Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family adjustment</td>
<td></td>
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<tr>
<td>Lifestyle issues</td>
<td></td>
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<tr>
<td>Work adjustment</td>
<td></td>
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<tr>
<td>Bad selection</td>
<td></td>
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<tr>
<td>Poor performance</td>
<td></td>
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<tr>
<td>Other opportunities arise</td>
<td></td>
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<tr>
<td>Business reasons</td>
<td></td>
</tr>
<tr>
<td>Repatriation issues</td>
<td></td>
</tr>
</tbody>
</table>
the type of training they have received through management development programs offered by American organizations. Increasingly, organizations such as the World Bank, ExxonMobil, and Petroleos de Venezuela are entering into partnerships with university executive education programs to customize the training experiences to the specific needs of expatriate managers and foreign nationals.

**Content of Training Programs**

Lack of training is one of the principal causes of failure among employees working internationally. Those working internationally need to know as much as possible about (1) the country where they are going, (2) that country’s culture, and (3) the history, values, and dynamics of their own organizations. Figure 15.8 gives an overview of what one needs to study for an international assignment. In many cases, the employee and his or her family can obtain a great deal of general information about the host country, including its culture, geography, social and political history, climate, food, and so on, via the Internet, books, lectures, videotapes, and DVDs. The knowledge gained will at least help the participants have a better understanding of their assignments. Sensitivity training can also help expatriates overcome ethnic prejudices they might harbor. The Peace Corps uses sensitivity training supplemented by field experiences. Expatriates can simulate a field experience in sensitivity training by visiting a nearby subculture in their native countries or by actually visiting a foreign country prior to relocating there.

However, at least five essential elements of training and development programs prepare employees for working internationally: (1) language training, (2) cultural training, (3) assessing and tracking career development, (4) managing personal and family life, and (5) repatriation—a final, but critical, step.

---

**Figure 15.8** Preparing for an International Assignment

To prepare for an international assignment, one should become acquainted with the following aspects of the host country:

1. Social and business etiquette
2. History and folklore
3. Current affairs, including relations between the host country and the United States
4. Cultural values and priorities
5. Geography, especially its major cities
6. Sources of pride and great achievements of the culture
7. Religion and the role of religion in daily life
8. Political structure and current players
9. Practical matters such as currency, transportation, time zones, hours of business
10. The language
Language Training
Communication with individuals who have a different language and a different cultural orientation is extremely difficult. Most executives agree that it is among the biggest problems for the foreign business traveler. Unfortunately, only a small percentage of Americans are skilled in a language other than English. But this is changing. Students who plan careers in international business should start instruction in one or more foreign languages as early as possible. Penn State University changed its requirements for all students in business management so that they now include four college semesters of a foreign language. Other programs designed to train participants for international business, such as those offered at the American Graduate School of International Management in Glendale, Arizona, and the Global Management Program at the University of South Carolina, provide intensive training in foreign languages. The top-ranked China Europe International Business School (CEIBS), jointly founded by the Chinese government and the European Union in 1994, also offers language training. Some companies do their own language training. When ARCO Products, a U.S. firm, began exploring potential business opportunities in China, its HR department set up a language training class (with the help of Berlitz International) in conversational Mandarin Chinese. Multinational companies as well as businesses that outsource work abroad stand to benefit from this type of training.

Fortunately for most Americans, English is almost universally accepted as the primary language for international business. Particularly when many people from different countries are working together, English is usually the designated language for meetings and formal discourse. Many companies provide instruction in English for those who are required to use English in their jobs. Dow Chemical requires that all employees across the globe be fluent in English so they can communicate more easily with one another. At Volkswagen’s Shanghai operation, only after workers pass German-language examinations do they become eligible for further training in Germany. Learning the language is only part of communicating in another culture, though. Even with an interpreter, much is missed. The following list illustrates the complexities of the communication process in international business.

1. In England, to “table” a subject means to put it on the table for present discussion. In the United States, it means to postpone discussion of a subject, perhaps indefinitely.

2. In the United States, information flows to a manager. In cultures in which authority is centralized (such as Europe and South America), the manager must take the initiative to seek out the information.

3. Getting straight to the point is uniquely American. Many Europeans, Arabs, and others resent American directness in communication.

4. In Japan, there are sixteen ways to avoid saying “no.”

5. When something is “inconvenient” to the Chinese, it is most likely downright impossible.

6. In most foreign countries, expressions of anger are unacceptable; in some places, public display of anger is taboo.
7. The typical American must learn to treat silences as “communication spaces” and not interrupt them.

8. In general, Americans must learn to avoid gesturing with the hand. A couple of cases in point: When Richard Nixon traveled to Brazil in the 1950s, he waved and gave the “A-OK” sign to the country’s citizens. But in Brazil, the gesture is considered obscene and insulting. Similarly, a college sports–related hand signal made by George W. Bush and his family members during his second inauguration shocked Norwegians around the world; in Norway, the gesture is a satanic symbol. Nonverbal communication training can help businesspeople avoid some of these communication pitfalls. Highlights in HRM 4 illustrates that some of our everyday gestures have very different meanings in other cultures.

**Cultural Training**

Cross-cultural differences represent one of the most elusive aspects of international business. Brazilians tend to perceive Americans as always in a hurry, serious, reserved, and methodical, whereas the Japanese view Americans as relaxed, friendly, and impulsive. Why do these different perceptions exist and how do they affect the way we do business across borders?

Managerial attitudes and behaviors are influenced, in large part, by the society in which managers have received their education and training. Similarly, reactions of employees are the result of cultural conditioning. Each culture has its expectations for the roles of managers and employees. On her first day on the job abroad, one expatriate manager recalls her boss ordering a bottle of wine to split between the two of them at lunch. Although this is a common practice in Britain, the expatriate manager was initially taken aback. Likewise, in what one culture encourages as participative management another might see as managerial incompetence: An American manager in Asia once complained that meetings held in his foreign place of employment accomplished nothing. He was used to arriving at a final decision during meetings. But to his Asian co-workers, meetings were solely a place in which to share ideas. Decisions were to be made only later. Being successful depends on one’s ability to understand the way things are normally done and to recognize that changes cannot be made abruptly without considerable resistance, and possibly antagonism, on the part of local nationals.

A wealth of data from cross-cultural studies reveals that nations tend to cluster according to similarities in certain cultural dimensions such as work goals, values, needs, and job attitudes. Using data from eight comprehensive studies of cultural differences, Simcha Ronen and Oded Shenkar have grouped countries into the clusters shown in Figure 15.9.

Ronen and Shenkar point out that while evidence for the grouping of countries into Anglo, Germanic, Nordic, Latin European, and Latin American clusters appears to be quite strong, clusters encompassing the Far Eastern and Arab countries are ill defined and require further research, as do clusters of countries classified as independent. Many areas, such as Africa, have not been studied much at all. It should also be noted that the clusters presented in Figure 15.9 do not include Russia and the former satellites of the Soviet Union. Those countries, if added to the figure, would likely fall between the Near Eastern and Nordic categories. Studying cultural differences can help managers identify and understand work attitudes and motivation in other cultures. When compared with the Japanese, for example, Americans may feel little loyalty to their organizations. In Japan, employees are more likely to feel a
Nonverbal Communications in Different Cultures

CALLING A WAITER
In the United States, a common way to call a waiter is to point upward with the forefinger. In Asia, a raised forefinger is used to call a dog or other animal. To get the attention of a Japanese waiter, extend the arm upward, palm down, and flutter the fingers. In Africa, knock on the table. In the Middle East, clap your hands.

INSULTS
In Arab countries, showing the soles of your shoes is an insult. Also, an Arab may insult a person by holding a hand in front of the person’s face.

A-OKEY GESTURE
In the United States, using the index finger and the thumb to form an “o” while extending the rest of the fingers is a gesture meaning okay or fine. In Japan, however, the same gesture means money. Nodding your head in agreement if a Japanese uses this sign during your discussion could mean you are expected to give him some cash. And in Brazil the same gesture is considered a seductive sign to a woman and an insult to a man.

EYE CONTACT
In Western and Arab cultures, prolonged eye contact with a person is acceptable. In Japan, on the other hand, holding the gaze of another is considered rude. The Japanese generally focus on a person’s neck or tie knot.

HANDSHAKE AND TOUCHING
In most countries, the handshake is an acceptable form of greeting. In the Middle East and other Islamic countries, however, the left hand is considered the toilet hand and is thought to be unclean. Only the right hand should be used for touching.

SCRATCHING THE HEAD
In most Western countries, scratching the head is interpreted as lack of understanding or noncomprehension. To the Japanese, it indicates anger.

INDICATING “NO”
In most parts of the world, shaking the head left and right is the most common way to say no. But among the Arabs, in parts of Greece, Yugoslavia, Bulgaria, and Turkey, a person says no by tossing the head to the side, sometimes clicking the tongue at the same time. In Japan, no can also be said by moving the right hand back and forth.

AGREEMENT
In addition to saying yes, Africans will hold an open palm perpendicular to the ground and pound it with the other fist to emphasize “agreed.” Arabs will clasp their hands together, forefingers pointed outward, to indicate agreement.

strong loyalty to their company, although this may be changing. Japanese companies no longer universally guarantee an employee a job for life, and layoff decisions are increasingly being made based on merit, not seniority—a practice unthinkable in the country in the past. Latin Americans tend to view themselves as working not only for a particular company but also for an individual manager. Thus managers in Latin
American countries can encourage performance only by using personal influence and working through individual members of a group. In the United States, competition has been the name of the game; in Japan, Taiwan, and other Asian countries, cooperation is more the underlying philosophy.29

One of the important dimensions of leadership, whether in international or domestic situations, is the degree to which managers invite employee participation in decision making. While it is difficult to find hard data on employee participation across different countries, careful observers report that American managers are about in the middle on a continuum of autocratic to democratic decision-making styles. Scandinavian and Australian managers also appear to be in the middle. South American and European managers, especially those from France, Germany, and Italy, are toward the autocratic end of the continuum; Japanese managers are at the most participatory end. Because Far Eastern cultures and religions tend to emphasize harmony, group decision making predominates there.30

Assessing and Tracking Career Development
International assignments provide some definite developmental and career advantages. For example, working abroad tends to increase a person’s responsibilities and influence within the corporation. In addition, it provides a person with a set of experiences that are uniquely beneficial to both the individual and the firm. In this way, international assignments enhance a person’s understanding of the global marketplace and offer the opportunity to work on a project important to the organization.31

In recent years, U.S. companies have become a virtual melting pot of CEOs: In 2002, foreign-born CEOs filled 57 of the Fortune 500 top slots—a fourfold increase over the previous six years. Coke’s Irish-born E. Neville Isdell is one of a growing number of foreign-born chief executive officers at the helm of American companies. Schering-Plough CEO Fred Hassan is from Pakistan. Alcoa boasts a Moroccan CEO, as does Eli Lilly. Figure 15.10 presents a number of other foreign-born CEOs.
“Having a foreign perspective gives you an advantage not only for doing business outside the United States but also domestically, where we have the most diverse society in the world,” remarked Carlos Gutierrez, who was born in Cuba and is now the CEO of Kellogg in the United States. To maximize the career benefits of a managerial assignment, a candidate should ask two key questions before accepting a foreign post:

1. Do the organization’s senior executives view the firm’s international business as a critical part of their operation? Research shows that expatriates with clear goals that truly need to be accomplished are likely to find their assignments more rewarding. Realizing this, fewer companies are sending expatriates abroad for career development purposes only.

2. Within top management, how many executives have a foreign-service assignment in their background, and do they feel it important for one to have overseas experience? Colgate-Palmolive sees a foreign assignment as part of an extended career track rather than as a one-off assignment. A successful foreign assignment tends to lead to another and another. “Our top priority is to identify, develop and retain the next two to three generations of leaders,” said one Colgate-Palmolive manager. Part of that strategy includes directly using the knowledge of the company’s current and former expatriates.

Managing Personal and Family Life

As noted previously, one of the most frequent causes of an employee’s failure to complete an international assignment is personal and family stress. Culture shock—a disorientation that causes perpetual stress—is experienced by people who settle overseas for extended periods. The stress is caused by hundreds of jarring and disorienting incidents such as being unable to communicate, having trouble getting the telephone to work, being unable to read the street signs, and a myriad of other everyday matters that are no problem at home. Soon minor frustrations become catastrophic events, and one feels helpless and drained, emotionally and physically.

Highlights in HRM 5 shows some of the primary sources of stress at different stages of an international assignment, as well as some of the responses that individuals and organizations use to cope with these types of stress.

In Chapter 5, we observed that more and more employers are assisting two-career couples in finding suitable employment in the same location. To accommodate dual-career partnerships, some employers are providing informal help finding jobs for the spouses of international transferees. However, other companies are establishing more formal programs to assist expatriate couples. These include career- and life-planning counseling, continuing education, intercompany networks to identify job openings in other companies, and job-hunting/ fact-finding trips. In some cases, a company may even create a job for the spouse—though this is not widely practiced. The available evidence suggests that while a spouse’s career may create some problems initially, in the long run it actually may help ease an expatriate’s adjustment process.
### Stressors and Coping Responses in the Developmental Stages of Expatriate Executives

<table>
<thead>
<tr>
<th>PRIMARY RESPONSE</th>
<th>EXECUTIVE COPING RESPONSE</th>
<th>EMPLOYER COPING STAGE STRESSORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre- and post-arrival training</td>
<td>Ignorance of cultural differences.</td>
<td>Do not make unwarranted assumptions of cultural competence and cultural rules.</td>
</tr>
<tr>
<td>Arrival</td>
<td>Cultural shock.</td>
<td>Do not construe identification with the host and parent cultures as mutually exclusive. Seek social support.</td>
</tr>
<tr>
<td>Novice</td>
<td>Cultural blunders or inadequacy of coping responses. Ambiguity owing to inability to decipher meaning of situations.</td>
<td>Observe and study functional value of coping responses among locals. Do not simply replicate responses that worked at home.</td>
</tr>
<tr>
<td>Transitional</td>
<td>Rejection of host or parent culture.</td>
<td>Form and maintain attachments with both cultures.</td>
</tr>
<tr>
<td>Mastery</td>
<td>Frustration with inability to perform boundary spanning role. Bothered by living with a cultural paradox.</td>
<td>Internalize and enjoy identification with both cultures and walking between two cultures.</td>
</tr>
</tbody>
</table>

Repatriation

An increasing number of companies such as Monsanto, 3M, EDS, and Verizon are developing programs specifically designed to facilitate repatriation—that is, helping employees make the transition back home. Repatriation programs are designed to prepare employees for adjusting to life at home (which at times can be more difficult than adjusting to a foreign assignment). ExxonMobil employees are given a general idea of what they can expect following a foreign assignment even before they leave home. Unfortunately, not all companies have career development programs designed for repatriating employees. Several studies have found that the majority of companies do not do an effective job of repatriation. Here are some general findings:

1. Only about one-third of companies had a repatriation plan.
2. Another third typically don’t begin formal repatriation discussions until two to six months before the end of an expatriate’s assignment.
3. The remaining third of companies never engage in a repatriation discussion with their employees.34

Employees often lament that their organizations are vague about repatriation, their new roles within the company, and their career progression. In many cases, employees abroad have learned how to run an entire international operation—or at least significant parts of it. When they return home, however, their responsibilities are often significantly diminished. In fact, the evidence suggests that only a fraction of them are actually promoted. It is also not at all uncommon for employees to return home after a few years to find that there is no position for them in the firm and that they no longer know anyone who can help them—their longtime colleagues have moved to different departments or even different companies. This frequently leaves the repatriated employee feeling alienated.

Even when employees are successfully repatriated, their companies often do not fully utilize the knowledge, understanding, and skills developed on their assignments. This hurts the employee, of course, but it also hurts the firm’s chances of utilizing the employee’s expertise to gain a competitive advantage. Not surprisingly, expatriates frequently leave their companies within a year or two of coming home. Some experts say the number of expatriates who do so is as high as 50 percent.

At companies with good repatriation processes, employees are given guidance about how much the expatriate experience may have changed them and their families. Some firms introduce former expatriates and their spouses to other former expatriates at special social events. And more companies are making an effort to keep in touch with expatriates while they are abroad, which has been made easier by e-mail, instant messaging, and videoconferencing. Colgate’s division executives and other corporate staff members frequently visit international transferees. Dow appoints a high-level manager who serves as a stateside contact for information about organizational changes, job opportunities, and anything related to salary and compensation. Monsanto’s repatriation program is designed not only to smooth the employee’s return to the home organization but also to ensure that the expatriate’s knowledge and experience are fully utilized. To do so, returning expatriates get the chance to showcase their new knowledge in debriefing sessions. Some companies also create databases of expatriates to help other employees who go abroad later.35 A repatriation checklist is shown in Highlights in HRM 6.
Compensation

One of the most complex areas of international HRM is compensation. Different countries have different norms for employee compensation. For Americans, while nonfinancial incentives such as prestige, independence, and influence may be motivators, money is likely to be the driving force. Other cultures are more likely to emphasize respect, family, job security, a satisfying personal life, social acceptance, advancement, or power. Since there are many alternatives to money, the rule is to match the reward with the values of the culture. In individualistic cultures, such as

Repatriation Checklist

Before they go:
- Make sure there is a clear need for the international assignment. Don’t send someone abroad unnecessarily. Develop a clear set of objectives and expectations and timeframes in which they should be met.
- Make sure that your selection procedures are valid. Select the employee and also look at and involve the employee’s family.
- Provide (or fund) language and cultural training for the employee and the employee’s family.
- Offer counseling and career assistance for the spouse.
- Establish career-planning systems that reward international assignments and lead to promotion and knowledge sharing.

While they are away:
- Jointly establish a developmental plan that focuses on the goal to be achieved.
- Tie performance objectives to the achievement of the goal.
- Identify mentors who can be a liaison and support person from home.
- Keep communications open so that the expatriate is aware of job openings and opportunities.
- Arrange for frequent visits back home (for the employee and the family). Make certain they do not lose touch with friends and relatives.

When they come back home:
- Throw a “welcome home” party and arrange for a meeting with other former expatriates.
- Offer counseling to ease the transition.
- Arrange conferences and presentations to make certain that knowledge and skills acquired away from home are identified and disseminated.
- Set up an expatriate database to help other employees who go abroad later.
- Get feedback from the employee and the family about how well the organization handled the repatriation process.

the United States, pay plans often focus on individual performance and achievement. However, in collectively oriented cultures such as Japan and Taiwan, pay plans focus more on internal equity and personal needs.

Figure 15.11 shows some of the primary forces shaping global pay strategies. In general, a guiding philosophy for designing pay systems might be “think globally and act locally.” That is, executives should normally try to create a pay plan that supports the overall strategic intent of the organization but provides enough flexibility to customize particular policies and programs to meet the needs of employees in specific locations. After a brief discussion of compensation practices for host-country employees and managers, we will focus on the problems of compensating expatriates.

**Compensation of Host-Country Employees**

As shown in Figure 15.12, hourly wages vary dramatically from country to country, from more than $30 on average in Norway and Germany to just $5–$10 in Taiwan and Portugal and less than a dollar in developing countries. Host-country employees are generally paid on the basis of productivity, time spent on the job, or a combination of these factors. In industrialized countries, pay is generally by the hour; in developing countries, by the day. The piece-rate method is quite common. In some countries, including Japan, seniority is an important element in determining employees’ pay rates. When companies commence operations in a foreign country, they usually set their wage rates at or slightly higher than the prevailing wage for local companies. Eventually, though, they are urged to conform to local practices to avoid “upsetting” local compensation practices. In Italy, Japan, and some other countries, it is customary to add semiannual or annual lump-sum payments equal to one or two months’ pay. These payments are not considered profit sharing but an integral part of the basic pay package. Profit sharing is legally required for certain categories of industry in Mexico, Peru, Pakistan, India, and Egypt among the developing countries and in France among the industrialized countries. Compensation patterns in Eastern Europe are in flux as these countries make the adjustment to more-capitalistic systems.

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**Figure 15.11**

**Forces Driving Global Pay**

<table>
<thead>
<tr>
<th>CULTURAL PREFERENCES</th>
<th>PERSONAL PREFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance of status</td>
<td>Attitudes toward risk</td>
</tr>
<tr>
<td>Role of individual vs. organization vs. government</td>
<td>Quality of life vs. work</td>
</tr>
<tr>
<td>Equality vs. disparity</td>
<td>Short- vs. long-term</td>
</tr>
<tr>
<td>Achievement vs. relationships</td>
<td>Competitiveness vs. solidarity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ECONOMIC CONDITIONS</th>
<th>SOCIAL CONSTRAINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of economy</td>
<td>Income tax rates, social costs</td>
</tr>
<tr>
<td>Types of industries, natural resources</td>
<td>Laws and regulations</td>
</tr>
<tr>
<td>Inflation, unemployment</td>
<td>Collective bargaining, worker participation</td>
</tr>
<tr>
<td>Protectionism vs. open market</td>
<td>Skills, education of workforce</td>
</tr>
</tbody>
</table>

Employee benefits can range dramatically from country to country as well. In France, for example, benefits are about 70 percent, compared with around 40 percent in the United States. In contrast to ten vacation days in the United States, workers in the United Kingdom, France, and the Netherlands receive about twenty-five days of paid vacation. Workers in Sweden and Austria receive thirty. Whereas in the United States most benefits are awarded to employees by employers, in other industrialized countries most of them are legislated or ordered by governments. Some of these plans are changing. Defined contribution plans are on the rise, sex equality is becoming important, and stock ownership is being tried.

Because the largest cost for most companies is labor, it plays a prime role in international HR decision making. However, some people believe that companies are overcapitalizing on worldwide compensation differences. Many firms (Nike included) have generated bad press for charging hundreds of dollars for their individual products while the people who make them—sometimes children in developing countries working under terrible conditions—earn only a few cents on the dollar. This has led to international political protests, as we mentioned in Chapter 1, and pressure on firms to exercise greater global social responsibility. As Nike discovered, it’s pressure they can’t afford not to take seriously. Starbucks clearly takes good corporate citizenship seriously. Among Starbucks’ many initiatives is its association with Fair Trade and Conservation International to help farmers in third-world countries get a premium for

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**Figure 15.12** Hourly Wages in Different Countries*

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>$/HOUR</th>
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</thead>
<tbody>
<tr>
<td>Norway</td>
<td>31.55</td>
</tr>
<tr>
<td>Germany (former West)</td>
<td>31.25</td>
</tr>
<tr>
<td>Switzerland</td>
<td>27.87</td>
</tr>
<tr>
<td>Belgium</td>
<td>27.73</td>
</tr>
<tr>
<td>Sweden</td>
<td>25.18</td>
</tr>
<tr>
<td>United States</td>
<td>21.97</td>
</tr>
<tr>
<td>France</td>
<td>21.13</td>
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*Hourly compensation costs in U.S. dollars for production workers in manufacturing.

the coffee they grow. We will discuss more on the fair treatment of workers in third-world countries toward the end of the chapter.

Compensation of Host-Country Managers

In the past, remuneration of host-country managers has been ruled by local salary levels. However, increased competition among different companies with subsidiaries in the same country has led to a gradual upgrading of host-country managers’ salaries. Overall, international firms are moving toward a narrowing of the salary gap between the host-country manager and the expatriate. Unilever, for example, used to leave the compensation arrangements largely to the boss of a region or a big country. Now brand managers in different countries increasingly compare notes, so they see potential discrepancies based on market differences and expatriate assignments. So the company moved from a narrow grading structure to five global work levels. Managers’ pay is still based on the country they work in, but there will be regional convergence so that in time there will be a pan-European rate.38

Compensation of Expatriate Managers

If the assignment is going to be successful, the expatriate’s compensation plan must be competitive, cost-effective, motivating, fair, easy to understand, consistent with international financial management, relatively easy to administer, and simple to communicate. To be effective, an international compensation program must:

1. Provide an incentive to leave the United States
2. Allow for maintaining an American standard of living
3. Provide for security in countries that are politically unstable or present personal dangers
4. Include provisions for good healthcare
5. Take into account the foreign taxes the employee is likely to have to pay (in addition to domestic taxes) and help him or her with tax forms and filing
6. Provide for the education of the employee’s children abroad, if necessary
7. Allow for maintaining relationships with family, friends, and business associates via trips home and other communication technologies
8. Facilitate reentry home
9. Be in writing39

For short-term assignments, usually those that are project-based, expatriates are frequently given per-diem (per-day) compensation. These managers might reside in hotels and service apartments instead of leasing houses. They are also less likely to bring their family members with them. The assignment becomes more like a commuting assignment in which the expatriate spends the week in the host country and returns home on the weekend.

For longer-term assignments, there are two basic types of compensation systems. The first is home-based pay, based on the balance-sheet approach, a system designed to equalize the purchasing power of employees at comparable positions living overseas and in the home country and to provide incentives to offset qualitative differences between assignment locations.40 The balance-sheet approach generally comprises the following steps:

**home-based pay**
Pay based on an expatriate’s home country’s compensation practices

**balance-sheet approach**
A compensation system designed to match the purchasing power in a person’s home country

USING THE INTERNET

What salary would a manager need to receive to maintain his or her real current income while working in a foreign city? See the international salary calculator. Go to the Student Resources at: http://bohlander.swlearning.com

Managing Human Resources, 14e, Bohlander/Snell - © 2007 Thomson South-Western
**Step 1: Calculate base pay.** Begin with the home-based gross income, including bonuses. Deduct taxes, Social Security, and pension contributions.

**Step 2: Figure cost-of-living adjustment (COLA).** Add a cost-of-living adjustment to the base pay. Typically, companies don’t subtract when the international assignment has a lower cost of living. Instead, they allow the expatriate to benefit from the negative differential. Often a housing allowance is added in here as well.

**Step 3: Add incentive premiums.** General mobility premiums and hardship premiums compensate expatriates for separation from family, friends, and domestic support systems, usually 15 percent of base salary, although in recent years, some companies have reduced this amount. Sometimes incentive premiums are paid for hazardous duty or harsh conditions the expatriate might experience while abroad.

**Step 4: Add assistance programs.** These additions are often used to cover added costs such as moving and storage, automobile, and education expenses.

The differentials element is intended to correct for the higher costs of overseas goods and services so that in relation to their domestic peers expatriates neither gain purchasing power nor lose it. It involves a myriad of calculations to arrive at a total differential figure, but in general, as we have said, the cost typically runs between three and five times the home-country salary. Fortunately, employers do not have to do extensive research to find comparative data. They typically rely on data published quarterly by the U.S. State Department for use in establishing allowances to compensate American civilian employees for costs and hardships related to assignments abroad. Alternately, they consult international relocation experts to make sure all of the relocation bases are covered. For example, in some countries expatriates are mandated by local law to participate in host-country programs—whether or not their pay packages are home- or host-based. Other countries have negotiated bilateral agreements that allow expatriates to opt out of state-sponsored benefit programs such as Social Security, as long as the expatriates are covered by similar programs in their home countries. The United States currently has bilateral agreements of this type with twenty countries.41

The second type of compensation system is **host-based pay.** Companies are under pressure to move expatriates to host-based pay because it is generally less costly. Host-based pay is compensation that is equivalent to that earned by employees in the country where the expatriate is assigned. This process is called **localization.** When an employee is localized, his or her compensation is set on par with local standards and practices. Incentive premiums are generally phased out, and the employee pays only local taxes and falls under the social benefit programs established by the government of the host country. Some companies localize only certain aspects of the pay package or do so gradually over a course of three to five years.

Usually the decision to localize an employee depends on whether he or she will ultimately remain abroad or return home. In many companies the decision depends on whether the employee or the employer is the driving force behind the localization. An expatriate employee with a strong desire to remain in the host country beyond the planned length of assignment (perhaps because he or she married a local or has simply fallen in love with the country), is likely to be more amenable to localization. Localization shouldn’t be viewed as a cost-saving panacea, however. There are many countries in which expatriates would refuse to “go local.” Forcing an employee to do so can ultimately result in a failed assignment costing the company much more money than it would have saved by localizing him or her.

Another serious issue related to expatriate compensation is medical care. Employees are unlikely to consent to going abroad if they cannot get healthcare
comparable to what’s available in their home countries. Often U.S.-based plans can’t cover expatriate employees or efficiently deal with claims that need to be reimbursed in foreign currency. Drugs prescribed abroad that are not FDA approved can also cause reimbursement problems for U.S. expatriates. One solution is to provide the expatriate with a global health benefits plan such as Cigna International Expatriate Benefit. The Cigna plan covers 200,000 expatriates and their dependents for 700 different international client companies. Another alternative is to transfer the employee to a global employment company that can provide these types of benefits. A global employment company is similar to a PEO (professional employer organization), discussed in Chapter 5. Basically, the employee is transferred to the global employment company, which administers all of his or her benefits as well as those of numerous employees working for other companies. Still another issue is the need to provide expatriates and employee who travel abroad with security. Citigroup hires private drivers for employees doing business in countries such as Mexico—even for employees on extended stays. Archer Daniels Midland uses a travel management company that provides travel security climate information to employees as soon as they book their trips. Companies can also purchase travel-related insurance covering a range of services such as evacuation and disability or travel-related injuries. HR managers are generally responsible for evaluating and implementing these different types of programs.

Performance Appraisal

As we noted earlier, individuals frequently accept international assignments because they know that they can acquire skills and experiences that will make them more valuable to their companies. Frequently, however, it can be difficult for the home office to evaluate the performance of employees working abroad. Even the notion of performance evaluation is indicative of a U.S. management style that focuses on the individual, which can cause problems in Asian countries such as China, Japan, and Korea and Eastern European countries such as Hungary and the Czech Republic. Performance appraisal problems can contribute to failure rates among expatriates and actually derail an individual’s career rather than enhance it.

Who Should Appraise Performance?

In many cases, an individual working internationally has at least two allegiances: one to his or her home country (the office that made the assignment) and the other to the host country in which the employee is currently working. Superiors in each location frequently have different information about the employee’s performance and may also have very different expectations about what constitutes good performance. For these reasons, the multirater (360-degree) appraisal discussed in Chapter 8 is gaining favor among global firms. There are exceptions, however. Thai workers do not see it as their business to evaluate their bosses, and Thai managers do not think subordinates are in any way qualified to assess them. Before implementing a different appraisal process, HR managers need to understand how the process is likely to be received in the host country.
Home- versus Host-Country Evaluations

Domestic managers are frequently unable to understand expatriate experiences, value them, or accurately measure their contribution to the organization. Geographical distances create communication problems for expatriates and home-country managers, although e-mail, instant messaging, and other HR information systems technologies have begun to help close the gap. Still, local managers with daily contact with the expatriate are more likely to have an accurate picture of his or her performance. Host-country evaluations can sometimes be problematic, though. First, local cultures may influence one’s perception of how well an individual is performing. As noted earlier in the chapter, participative decision making may be viewed either positively or negatively, depending on the culture. Such cultural biases may not have any bearing on an individual’s true level of effectiveness. In addition, local managers sometimes do not have enough of a perspective on the entire organization to know how well an individual is truly contributing to the firm as a whole.

Given the pros and cons of home-country and host-country evaluations, most observers agree that performance evaluations should try to balance the two sources of appraisal information. Although host-country employees are in a good position to view day-to-day activities, in many cases the individual is still formally tied to the home office. Promotions, pay, and other administrative decisions are connected there, and as a consequence, the written evaluation is usually handled by the home-country manager. Nevertheless, the appraisal should be completed only after vital input has been gained from the host-country manager. As discussed in Chapter 8, multiple sources of appraisal information can be extremely valuable for providing independent points of view—especially if someone is working as part of a team. If there is much concern about cultural bias, it may be possible to have people of the same nationality as the expatriate conduct the appraisal.

Performance Criteria

Because expatriate assignments are so costly, many HR managers are increasingly under pressure to calculate the return on investment of these assignments. What did the firm get for the million dollars it spent to send an expatriate abroad? Has the expatriate achieved the goals set forth in the assignment in the appropriate time frame? Obviously the goals and responsibilities inherent in the job assignment are among the most important criteria used to evaluate an individual’s performance, and different goals necessitate measuring different criteria. The Expatriate Technology Forum (ETF), comprising multinational companies such as Philips, Shell, and Heineken, has developed benchmarks and other standards HR professionals can use to calculate ROI. The criteria are tied to the various reasons employees were sent abroad in the first place—whether the goal was to transfer technical skills or best practices, improve a division’s financial performance, or develop managerial talent.

The danger with ROI calculations, however, is that there is a temptation to resort to using “easy” criteria such as productivity, profits, and market share to measure an expatriate’s performance. These criteria may be valid—but they are still deficient if they do not capture the full range of an expatriate’s responsibility. Other, more subtle factors should be considered as well. Leadership development, for example, involves a much longer-term value proposition. In many cases, an expatriate is
an ambassador for the company, and a significant part of the job is cultivating relationships with citizens of the host country. As we discussed at the beginning of this chapter, an individual’s success or failure is affected by a host of technical and personal factors. For example, as one might guess, it is much easier to adjust to similar cultures than to dissimilar ones. An American can usually travel to the United Kingdom or Australia and work with locals almost immediately. Send that same individual to Hungary or Malaysia, and the learning curve is more steep. And the expatriate’s adjustment period may be even longer if the company has not yet established a good base of operations in the region. The first individuals transferred to a country have no one to show them the ropes or to explain local customs. Even relatively simple activities such as navigating the rapid-transit system can prove to be problematic. The U.S. State Department and defense forces have developed rating systems that attempt to distinguish the different degrees of difficulty associated with different regional assignments. These difficulty factors need to be considered and built into the appraisal system.47

**Providing Feedback**

Performance feedback in an international setting is clearly a two-way street. Although the home-country and host-country superiors may tell an expatriate how well he or she is doing, it is also important for expatriates to provide feedback regarding the support they are receiving, the obstacles they face, and the suggestions they have
about the assignment. More than in almost any other job situation, expatriates are in
the very best position to evaluate their own performance.

In addition to ongoing feedback, an expatriate should have a debriefing inter-
view immediately on returning home from an international assignment. These repa-
triation interviews serve several purposes:

1. They help expatriates reestablish old ties with the home organization and may
prove to be important for setting new career paths.
2. The interview can address technical issues related to the job assignment itself.
3. The interview may address general issues regarding the company’s overseas com-
mitments, such as how relationships between the home and host countries
should be handled.
4. The interview can be very useful for documenting insights an individual has
about the region. These insights can then be incorporated into training programs
for future expatriates. However, if the learning is not shared, then each new expa-
triate to a region may have to go through the same cycle of adjustment.

The Labor Environment Worldwide

A country’s labor environment plays a large role in international business and HR
decisions. As we have said, wages and benefits vary dramatically across the world as
do safety, child, and other legal regulations. In many countries, the state’s regulation
of labor contracts is profound and extensive. Labor unions around the world differ
significantly as well. Differences exist not only in the collective bargaining process
but also in the political-legal conditions. For example, the EU prohibits discrimina-
tion against workers in unions, but in many other countries, including countries in
Central America and Asia, labor unions are illegal. China has only one union, the
All-China Federation of Trade Unions, an eighty-year-old Communist Party institu-
tion that for decades has aligned itself more closely with management than workers.
In some countries, only workers at larger firms are allowed to organize.

Union strength depends on many factors, such as the level of employee partici-
pation, per capita labor income, mobility between management and labor, homo-
genity of labor (racial, religious, social class), and unemployment levels. These and
other factors determine how well a union will be able to represent labor effectively.
Nearly all of Sweden’s workers are organized, giving the unions in this country con-
siderable strength and autonomy. By contrast, in countries with relatively high
unemployment, low pay levels, and no union funds with which to support social
welfare systems, unions are driven into alliance with other organizations: political
party, church, or government. This is in marked contrast to the United States, where
the union selected by the majority of employees bargains only with the employer, not
with other institutions. By contrast, the unions in many European countries (such as
Sweden) have a great deal of political power and are often allied with a particular
political party. When employers in these countries deal with unions, they are, in
effect, dealing indirectly with governments.
In a number of countries, however, including Japan, Germany, New Zealand, and the United Kingdom, unions have been losing some of their power. Ironically, the power of the unions to gain high wages and enforce rigid labor rules has been blamed for hurting competitiveness, particularly in European countries. Laws make it difficult to fire European employees, so workers are hired only sparingly. Unemployment benefits are very generous, so people tend to remain unemployed for longer rather than seek work. But because companies are increasingly tempted to offshore jobs to lower-labor-cost countries, unionized workers are beginning to make more concessions. For example, at Bosch in France, union bosses opposed management’s plan to lengthen the workweek. But fearful workers overruled the union bosses, voting instead for the longer workweek. As the power of unions declines a bit, the trend has been to demand compensation in other ways—through benefits or through greater participation in company decision making. Various approaches to participation will be discussed later.

Collective Bargaining in Other Countries

We saw in Chapter 14 how the collective bargaining process is typically carried out in companies operating in the United States. When we look at other countries, we find that the process can vary widely, especially with regard to the role of government. Collective bargaining can take place at the firm, local, or national level. In Australia and New Zealand for most of the twentieth century, labor courts had the authority to impose wages and other employment conditions on a broad range of firms (many of which were not even privy to the suits brought before the courts). In the United Kingdom and France, the government intervenes in all aspects of collective bargaining. Government involvement is only natural where parts of industry are nationalized. Also, in countries with heavy nationalization government involvement is more likely to be accepted, even in the nonnationalized companies. At Renault, the French government–owned automobile manufacturer, unions use political pressures in their bargaining with managers, who are essentially government employees. The resulting agreements then set the standards for other firms. This is true in spite of the fact that union membership rates in France have declined dramatically since the 1970s. In developing countries the governments commonly have representatives present during bargaining sessions to ensure that unions with relatively uneducated leaders are not disadvantaged in bargaining with skilled management representatives. Still, in these countries a union may do little more than attempt to increase wages and leave the rest of the employment contract unchanged. In more-developed countries, goals related to other aspects of the employment relationship, such as workweek lengths, safety requirements, and grievance procedures, are more likely to be pursued.

International Labor Organizations

The most active of the international union organizations has been the International Confederation of Free Trade Unions (ICFTU), which has its headquarters in Brussels. The ICFTU is a confederation of 215 national trade union centers, representing 125 million trade union members in 145 countries and territories. Cooperating with the ICFTU are numerous International Trade Secretariats (ITSp), which are really international federations of national trade unions operating in the same or related
industries. In addition to the ITSs, the ICFTU also cooperates with the European Trade Union Confederation (ETUC). The ETUC represents 60 million trade unionists from 76 organizations and 11 industry federations in 34 Western, Central and Eastern Europe countries. Another active and influential organization is the International Labour Organization (ILO), a specialized agency of the United Nations created in 1919. The ILO perhaps has had the greatest impact on the rights of workers throughout the world. It promotes the rights of workers to organize, eradication of forced and child labor, and elimination of discrimination. Over the decades, 178 countries have voluntarily committed to nearly 200 international conventions proposed by the ILO. The organization has been effective because it involves nation-states as well as workers and their employers. In recent years, the ILO has redefined its mission based on the “Decent Work Agenda.” The Decent Work Agenda promotes the idea that there is an ethical dimension of work. This ethical dimension includes decent homes, food, education, the right to organize, and social programs to protect workers when they are elderly, disabled, or unemployed. Moreover, the agenda pertains to workers worldwide, including the self-employed—a situation common in agricultural-based, developing countries. Given the fact that half of the world’s population lives on $2 a day or less, that 250 million children around the world are forced to work, and only 20 percent of people globally are covered by any sort of social insurance programs, these are worthy goals. Some companies, however, oppose the decent pay initiative, believing it promotes unionization.

**Labor Participation in Management**

In many European countries, provisions for employee representation are established by law. An employer may be legally required to provide for employee representation on safety and hygiene committees, worker councils, or even boards of directors. While their responsibilities vary from country to country, worker councils basically provide a communication channel between employers and workers. The legal codes that set forth the functions of worker councils in France are very detailed. Councils are generally concerned with grievances, problems of individual employees, internal regulations, and matters affecting employee welfare.

A higher form of worker participation in management is found in Germany, where representation of labor on the board of directors of a company is required by law. This arrangement is known as **codetermination** and often by its German word, *Mitbestimmung.* While sometimes puzzling to outsiders, the system is fairly simple: Company shareholders and employees are required to be represented in equal numbers on the supervisory boards of large corporations. Power is generally left with the shareholders, and shareholders are generally assured the chairmanship. Other European countries and Japan either have or are considering minority board participation.

Each of these differences makes managing human resources in an international context more challenging. But the crux of the issue in designing HR systems is not choosing one approach that will meet all the demands of international business. Instead, organizations facing global competition must balance multiple approaches and make their policies flexible enough to accommodate differences across national borders. Throughout this book we have noted that different situations call for different approaches to managing people, and nowhere is this point more clearly evident than in international HRM.
There are four basic ways to organize for global competition: (1) The international corporation is essentially a domestic firm that has leveraged its existing capabilities to penetrate overseas markets; (2) the multinational corporation has fully autonomous units operating in multiple countries in order to address local issues; (3) the global corporation has a worldview but controls all international operations from its home office; and (4) the transnational corporation uses a network structure to balance global and local concerns.

In addition to economic considerations, political-legal and cultural factors in different parts of the world make some countries more desirable to do business in than others. International HRM places greater emphasis on a number of responsibilities and functions such as relocation, orientation, and translation services to help employees adapt to a new and different environment outside their own country.

Many factors must be considered in the selection and development of employees. Though hiring host-country nationals or third-country nationals automatically avoids many potential problems, expatriates are preferable, but more costly, in some circumstances. When expatriates are hired, most companies try to minimize their stay. Operations are handed off to host-country nationals as soon as possible.

Once an expatriate is selected, an intensive training and development program is essential to qualify that person and his or her spouse for the assignment. Wherever possible, development should extend beyond information and orientation training to include sensitivity training and field experiences that will enable the manager to understand cultural differences better. Those in charge of the international program should provide the help needed to protect managers from career development risks, reentry problems, and culture shock.

Compensation systems should support the overall strategic intent of the organization but be customized for local conditions. Compensation plans must give expatriates an incentive to leave the United States; meet their standard-of-living, healthcare, and safety needs; provide for the education of their children, if necessary; and facilitate repatriation.

Although home-country managers frequently have formal responsibility for appraising individuals on foreign assignments, they may not be able to fully understand expatriate experiences because geographical distances pose communication problems. Host-country managers may be in the best position to observe day-to-day performance but may be biased by cultural factors and may not have a view of the organization as a whole. To balance the pros and cons of home-country and host-country evaluations, performance evaluations that combine the two sources of appraisal information is one option.

In many European countries—Germany, for one—employee representation is established by law. Organizations typically negotiate the agreement with the union at a national level, frequently with government intervention. In other countries union activity is prohibited or limited to only large companies. European unions have much more political power than many other unions around the world, although their power has declined somewhat, due to globalization forces. The International Confederation of Free Trade Unions (ICFTU), the European Trade Union Confederation (ETUC), and the International Labour Organization (ILO) are among the major worldwide organizations endeavoring to improve the conditions of workers.
KEY TERMS

augmented skills  
balance-sheet approach  
codetermination  
core skills  
cultural environment  
culture shock  
extatriates, or home-country nationals  
failure rate  
global corporation  
global manager  
guest workers  
home-based pay  
host-based pay  
host country  
host-country nationals  
international corporation  
localization  
multinational corporation (MNC)  
repatriation  
third-country nationals  
transnational corporation  
transnational teams  
work permit, or visa

DISCUSSION QUESTIONS

1. What major HR issues must be addressed as an organization moves from an international form to a multinational, to a global, and to a transnational form?

2. In recent years we have observed an increase in foreign investment in the United States. What effect are joint ventures, such as those between General Motors and Toyota and Daimler-Benz and Chrysler, having on HRM in the United States?

3. If you were starting now to plan for a career in international HRM, what steps would you take to prepare yourself?

4. Describe the effects that different components of the cultural environment can have on HRM in an international firm.

5. Starbucks is opening new stores abroad every day, it seems. If you were in charge, would you use expatriate managers or host-country nationals to staff the new facilities? Explain your thinking.

6. In what ways are American managers likely to experience difficulties in their relationships with employees in foreign operations? How can these difficulties be minimized?

7. This chapter places considerable emphasis on the role of the spouse in the success of an overseas manager. What other steps should companies take to increase the likelihood of a successful experience for all parties involved?

8. Talk with a foreign student on your campus; ask about his or her experience with culture shock on first arriving in the United States. What did you learn from your discussion?

9. If the cost of living is lower in a foreign country than in the United States, should expatriates be paid less than they would be at home? Explain your position. Who should ultimately decide whether an employee should be localized or not?

10. If grooming a talented individual for a leadership role is an important outcome of a foreign assignment, how can this be worked into a performance appraisal system? How would a manager assess leadership accomplishments?

11. What are the major differences between labor-management relations in Europe and those in the United States?

12. Do you believe that codetermination will ever become popular in the United States? Explain your position.
An American (Expatriate) in Paris

There is often a great deal of work involved in setting up expatriate assignments. The administrative requirements can be far ranging and extend beyond the employee to also include family issues. Suppose you were faced with the following scenario. What would be the most pressing considerations that you would need to address?

The Scenario
You are the head of HR for Sarip International, a consulting firm specializing in hotel and restaurant management. Your firm is opening an office in Paris, France, and Jim Verioti, director of sales and marketing, has been asked to assume responsibilities for the expansion. Jim understands that the expatriate assignment will last two to three years, and although he has traveled to Europe for work on several occasions, this is his first long-term assignment overseas. He has a lot of questions about what he can expect and also some personal constraints.

Jim and his wife Betty have just moved into their new home (their mortgage is around $1,500 per month). In addition, Betty is an elementary school teacher and doesn’t really know how the move will affect her job security. Their three children, Veronica (14), Reggie (12), and Archie (10), are of an age at which school considerations are very important. A friend told them about the American School in Paris, and this is a consideration. None of the Veriotis speak French.

Assignment
Working in teams of four to six individuals, put together the package that would allow Jim to move his family to Paris while still maintaining his present lifestyle (his current annual salary is $140,000 plus incentives). Address at least the following issues:

1. Visas and permits
2. Relocation allowance and housing
3. Language and culture training
4. Spousal employment concerns
5. Health/medical/insurance issues
6. Compensation and incentives
7. Education for the children

The following web sites may be helpful to you, but other resources may prove valuable as well.

- U.S. Embassy in Paris (http://www.amb-usa.fr/)
- French Consulates in the United States (http://www.ambafrance-us.org/intheus/consulates.asp)
- Expatica.com (http://www.expatica.com/france.asp)
- Americans in Paris (http://www.americansinfrance.net/)
- The Paris France Guide (http://www.parisfranceguide.com/)
- Center for Disease Control (http://www.cdc.gov/travel/)
- American School in Paris (http://www.asparis.org/about/)
- Medibroker (insurance) (http://www.medibroker.com/homecom.html?id=1js10)
- Access USA (mail) (http://www.myus.com/)
- Travlang (currency calculator) (http://www.travlang.com/money/)


**BIZFLIX EXERCISES**

*Mr. Baseball: Tolerance of Cultural Differences*

This chapter emphasized the importance of tolerance of cultural differences for success as an expatriate. Watch this *Mr. Baseball* scene carefully while considering the questions below.

The New York Yankees trade aging baseball player Jack Elliot (Tom Selleck) to the Chunichi Dragons, a Japanese team. This lighthearted comedy traces Elliot’s bungling entry into Japanese culture. It exposes his cultural misconceptions, which almost cost him everything—including his new girlfriend, Hiroko Uchiyama (Aya Takanashi). After Elliot slowly begins to understand Japanese culture and Japanese baseball, his teammates finally accept him. This film shows many examples of Japanese culture, especially its love for baseball.

This scene is an edited version of the “Welcome to Japan” sequence that appears early in the film. Jack Elliot arrives at Nogoya International Airport, Tokyo, Japan. Yoji Nishimura (Toshi Shioya) meets him and acts as Jack’s interpreter and guide. The film continues after this scene with the unfolding adventure of Jack Elliot playing for the Chunichi Dragons.

**What to Watch for and Ask Yourself**

- Is Jack Elliot culturally sensitive or culturally insensitive?
- Does he make any cross-cultural errors on his arrival in Japan? If yes, what are they?
- Review the earlier chapter section “Training and Development.” What type of training would you recommend for Jack Elliot?

*How about a 900 Percent Raise?*

Registered nurse Carmen Lopez wants a raise—so she’s leaving Mexico and moving to California to take a job at Desert Valley Medical, a hospital near Los Angeles, where her income will increase tenfold. “I was making US$500 a month in Mexico, and in the U.S. I will be making between $25 to $28 an hour,” Lopez says. Lopez, upon finishing her U.S. nursing exam, will be joining nine other Mexican nurses at Desert Valley Medical.

As U.S. baby boomers—now in their early sixties—age, the number of registered nurses in the United States is not keeping up. The U.S. government forecasts that by 2020 the demand for registered nurses will have increased by 40 percent while number of nurses will have risen by just 6 percent. There are currently 2.2 million working nurses.

Lopez and her colleagues were recruited by MDS Global Medical Staffing in Los Angeles. Roger Viera, co-founder of MDS Global Staffing, says he and his business partner have invested $1 million, and the Mexican government added another $1 million, to open a nurse residency program in Mexico that trains and certifies nurses to work in the United States. “We only recruit qualified nurses. They must have a four year Bachelor of Science degree and four years of work experience,” Viera says. MDS expects to recruit from Mexico’s twelve nursing schools and from Costa Rica in the near future.
In an unusual move, a seriously ailing Dallas software company, i2 Technologies, resettled 209 Indian engineers, programmers, and managers in their South Asian homeland on a voluntary basis to help stem losses as it laid off thousands of other employees. A series of corporate crises led to the mass repatriation back to India beginning in 2001.

Many returnees had worked in Texas, Massachusetts, and California for five to seven years on H-1B visas designed for temporary, highly skilled workers, although about 10 percent had acquired permanent-residency green cards or U.S. citizenship. They found the company’s Move to India Program too good to turn down—even if it meant a pay cut of 50 percent or more. None was pressured by management to return, said Gunaranjan “Guna” Pemmaraju, a 30-year-old engineer, who returned home. The returnees, many graduates of India’s top technical universities, were confident of finding other U.S. jobs if i2 laid them off and were prepared to “change industries if need be,” he asserted.

“When I left America, I actually kissed the ground,” Pemmaraju said. “It helped me grow as an individual, and it enriched my thought process.” Significantly, though, Pemmaraju says the quality of life in his middle-class Bangalore neighborhood is comparable—with a few minor downsides that he and his wife are willing to accept. Although their pay shrank in dollar terms, the repatriates are relatively better off in India.

“If we were in the top 25 percent in the United States, we’re in the top 5 percent here,” said one repatriate.

MDS has also recruited Maria de la Cruz Gonzalez, who says she’s excited about this opportunity to emigrate with her husband and work as a nurse in the United States. “The hospitals offer us a two-year contract where our nuclear family can come along to live with us in the U.S.,” she says. MDS gives the nurses three months of paid rent and transportation, provides placement with client hospitals, and provides training in technology and language. They will be able to work in U.S. hospitals for two years under a North American Free Trade Agreement visa.

Donna Smith, chief nursing officer at Desert Valley Medical, says she is happy to have the Mexican nurses join her staff and believes that they are as qualified as U.S. nurses. But, she says, they will need more technical experience before they can go to work, since technology is different in the hospitals of Mexico. “We will provide them with extra training once they get here,” she says.


QUESTIONS
1. Is recruiting nurses abroad a good idea for U.S. hospitals facing worker shortages?
2. Can you think of any cultural problems U.S. hospitals might encounter as a result?
3. What long-term recruiting measures should U.S. hospitals strive for?
“We may not have 54-inch TV sets, but we have more of a sense of community and belonging here,” another added.

Pemmaraju relies on DSL Internet access, fields morning calls from Dallas colleagues on a cell phone, and watches satellite TV while pedaling his new exercise bike. Instead of a Honda Accord, he drives a much smaller Suzuki Zen sedan.

For i2, the wage and benefit savings are helping it edge toward profitability. The company says the savings have been substantial. At its peak, i2 employed 6,349 people, with about 800 in India. It has since scaled down to 2,500 workers, 1,100 of whom are based in Bangalore.

Pemmaraju’s family expresses no regrets about returning, yet they retain fond memories of the United States, a country of “milk and honey”—not to mention seven-layer Taco Bell burritos and Krispy Kreme doughnuts. Pemmaraju was tickled by a recent call to a fast-food restaurant in Bangalore: “A guy answered the phone saying, ‘Thank you for calling Pizza Hut. Would that be for delivery or carry out?’ he said. It’s just what they said in Arlington [Texas]!”


QUESTIONS
1. Does repatriation represent a good financial strategy for firms with international employees?
2. Besides cost savings, does i2 have anything to gain by repatriating its Indian employees?
3. What type of repatriation preparation training do you think i2’s repatriates should receive before going home?

How Deloitte Builds Global Expertise

Although he is based in the medium-sized city of Leon, northwest of Mexico City, Fabian Gomez spends much of his time working with clients who don’t speak Spanish. He is an audit partner for the Mexican branch of Deloitte Touche Tohmatsu, a global accounting and business-services organization with 700 offices and 95,000 employees in 140 countries. “A lot of our business is serving Mexican subsidiaries of international companies, and the executives usually come from other places,” he says. “Tomorrow, for example, I have a meeting where six of the executives from one company are Americans, and ten from another company are Japanese.”

To best serve his clients, Gomez has to reconcile Mexican-style accounting documents and data with U.S. or Japanese standards. He also has to deal with business nuances that are often quite different from his own Mexican cultural roots. “For example, in Mexico, when you meet with clients, you’re expected to spend some time talking with them about their families, how their grandfathers and children are doing. That’s an important part of the relationship with them. The American style, in contrast, is very direct and to the point. You have to be very conscious of respecting a client’s time.”
Gomez is well equipped to handle the challenges. He spent eighteen months training and working in New York as a participant in Deloitte’s Global Development Program (GDP), an HR curriculum in which promising midcareer employees from throughout the world are assigned to work in other countries. Participants further develop their foreign-language skills, study the business practices and cultures of other countries, and network with people from other countries to broaden their business perspective. “We take great pride in preparing our people to help clients excel in a marketplace without borders,” says CEO James E. Copeland, Jr. But the Global Development Program provides more than just a boost to corporate self-esteem. Management views it as a key part of the organization’s strategic objective of expanding and integrating its business operations around the world. “The GDP isn’t just about learning the accounting practices of another country,” says Lynda Spielman, deputy director of deployment. “It’s about taking all these promising leaders from different countries and reinforcing the concept that they’re in a global organization.”

The value of such a program to an international company might seem fairly obvious. Yet when Deloitte management made the decision to focus more strongly on developing its international talent in the late 1990s, the company found itself in an odd dilemma. Graduates of the program could not only help their home-country operations acquire new clients and keep existing ones happy, but also burnish their own credentials and career prospects. Despite such clear advantages, the corporation had difficulty getting people to participate. In 1997, for example, the program managed to attract only 128 participants, barely 1 percent of the organization’s vast global workforce. Only 25 out of 140 of the company’s international subsidiaries sent participants to other locations or hosted them, and a disproportionate number of employees in the program came from just a few countries, such as the United Kingdom.

Deloitte’s corporate HR team saw that it needed to get the Global Development Program off the ground in many more countries, and that it had to sell both employees and executives on the value of participation. HR was tapped to help redesign the program to make it more appealing.

The next phase was to launch an ambitious multimedia internal marketing campaign. The core element was a self-assessment tool artfully designed to help employees from a wide range of cultural backgrounds to decide whether they were good candidates for the program.

Reshaping a Program to Fit Global Needs

When Deloitte’s corporate HR team started pondering how to jump-start the organization’s international development efforts in 1998, they realized that effective marketing often starts with understanding the audience, and tweaking the product to better serve them.

At the time, Spielman says, the Global Development Program was called the Strategic Career Development Program. The internal promotion efforts emphasized how international experience could help participants rise higher on the career ladder. After corporate HR sought feedback from company operations throughout the world, however, the team saw that the approach wasn’t working. Too often, what attracted potential candidates to the program was the opportunity to live in a particular country. They didn’t grasp the program’s strategic mission and how it related to the Deloitte operation in their home country.
Worse, the executives who headed the organization’s far-flung outposts often didn’t encourage staff members to participate. They didn’t see how allowing valued employees to spend a couple of years working in another country would benefit their own operations. And they weren’t always eager to bring in someone from another country and allow him or her to work for important clients just to gain experience—especially if they had to cover the salary cost.

As a result, the company decided to make some small but significant changes. The program was given a new name, carefully chosen to focus on its real mission—helping Deloitte increase its global business capabilities. Instead of simply depending on employees to choose countries that appealed to them, HR coordinators began working with applicants to identify other places in the world that offered experience relevant to work in their own countries. For example, an accountant whose office worked with the Mexican subsidiary of General Motors might be sent to Michigan to provide services to GM headquarters.

“Today, about 25 percent of the participants are placed so that they can work with the same global client in another location,” Spielman says. If that isn’t feasible, the HR coordinator will look for a country where the employee can work with a client in the same industry as a major client at home. Establishing that sort of tangible linkage between the assignment and home-country needs has helped make the program easier to sell. Additionally, Deloitte sought to encourage its operations in emerging countries to accept placements by agreeing to underwrite the employees’ salaries. The company also made the length of the assignment flexible.

To ensure that those improvements registered with the decision makers at Deloitte operations throughout the world, HR put considerable effort into marketing the program to executives as well as potential candidates. “In order to undertake something like this, you need to have your business leaders on board,” Spielman says. “There are so many things that can deter them—if they had a bad experience [with an expatriate] four years ago, for example, they’re still going to have a memory that you’ll need to overcome.” To address this problem, HR designed its video and print materials to emphasize the value that the program would provide to the executives. “For example, we found Deloitte clients to talk about the importance of international knowledge and skills,” Spielman says. “Those interviews were something that our leaders found very appealing.”

**Marketing the Program to Employees from Diverse Cultures**

Another problem, corporate HR learned, was that good candidates for the program were sometimes deterred by anxiety about leaving their families behind and coping with life in an unfamiliar place.

“In many other parts of the world, life tends to be more collectivist,” Spielman says. “People tend to do things together, or else divide the responsibilities. A professional from another country may have great skills on the job, but he may never have turned on a stove or shopped for groceries. I had a forty-year-old Brazilian professional who still lived at home. Despite her accounting skills, she’d never actually managed her own money, because she just turned her paycheck over to her parents.”

Going from that situation to living alone in an apartment in New York or Detroit can be a difficult experience. An American who takes an international assignment may have to make very different adjustments. “If you’re used to watching Monday night football, you have to deal with the fact that they don’t have anything like that
in Malaysia,” Spielman says. According to a 1997 study by the company’s Employee Relocation Council, 58 percent of employees on international assignments fail because of an inability to adapt to life in another country.

That’s why marketing materials were carefully designed to help employees feel more comfortable with the idea of an international development assignment. The “Experience the World” booklet, for example, included profiles of program participants from Chile, South Africa, Belgium, China, and the United States. “We also tried to balance men and women, married and single people,” Spielman says. “We wanted to create a message that everyone could identify with, no matter what country or background that person came from.”

To reduce potential candidates’ uncertainty, Spielman—who also teaches a class in cross-cultural management at New York University—felt it was crucial to develop a self-assessment tool that would help potential participants evaluate whether they were ready for a developmental placement elsewhere in the world. That wasn’t an easy task. “We needed something that would work for everybody, but also would dig deeper. We needed to force people to think introspectively and to be more culturally self-aware, so they could identify the issues that might affect them on an international assignment.” Spielman hired an outside consultant to redesign an existing tool, and then made additional modifications to ensure that the tool was culturally neutral. The finished product includes a case study that features a fictional Deloitte employee, Mark Peterson, and his wife, Linda.

Candidates evaluate the Pettersons’ strengths and weaknesses, a drill that gives them comparative insights into their own real-life situations. Questionnaires and checklists help candidates zero in on their biggest concerns. “They take the questions home and share them with their spouses. Each person takes the test separately, and they compare their answers.” The results can be scored numerically, so that the employee can get a more precise indication of whether he or she is a good candidate for the program.

**Impressive Results**

The results of the program revamping and marketing campaign have been impressive. Since 1997, Deloitte has increased the number of participating countries in the Global Development Program from twenty-five to fifty, and the number of employees has more than doubled, to 288. While it’s difficult to separate out the precise economic impact of that improvement, Deloitte executives see it as a factor in the company’s 11 percent growth in global revenue in fiscal 2001, to $12.4 billion. But the biggest benefit of successfully promoting the Global Development Program may lie a few years down the road. “Having more people with international training and experience may mean increasing the revenue we get from a client from $20 million to, say, $23 million, because we can handle the client’s subsidiary in Mexico,” Spielman says. In other cases, the added revenue isn’t as important as protecting a larger client relationship. “If you do a bad job on a $50,000 contract in Brazil, you may risk millions of dollars in revenue from the company’s parent in the United States.”

In Leon, Mexico, the success of the program is seen in management’s eagerness to have more participants. “We now have three people with international experience in our office, and we’re hoping to add one more each year,” Gomez says. “People are very excited about it, because they know that if they have international experience, both they and the company are going to get ahead.”

CHAPTER 15 International Human Resources Management

QUESTIONS

1. What were the goals of Deloitte’s Global Development Program?
2. What were the most noteworthy features of the program for career development?
3. What concerns do you have as the company looks toward the future?

NOTES AND REFERENCES


41. The U.S. State Department Index of Living Costs Abroad can be found on the Web at http://www.state.gov/travel/.


47. Mendenhall and Oddou, eds., Readings and Cases.


