

International Business 7e

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Chapter 18

Global Human Resource Management

Introduction

❖ **Human resource management (HRM)** refers to the activities an organization carries out to utilize its human resources effectively

These activities include:

- ❖ determining the firm's human resource strategy
- ❖ staffing
- ❖ performance evaluation
- ❖ management development
- ❖ compensation
- ❖ labor relations

Introduction

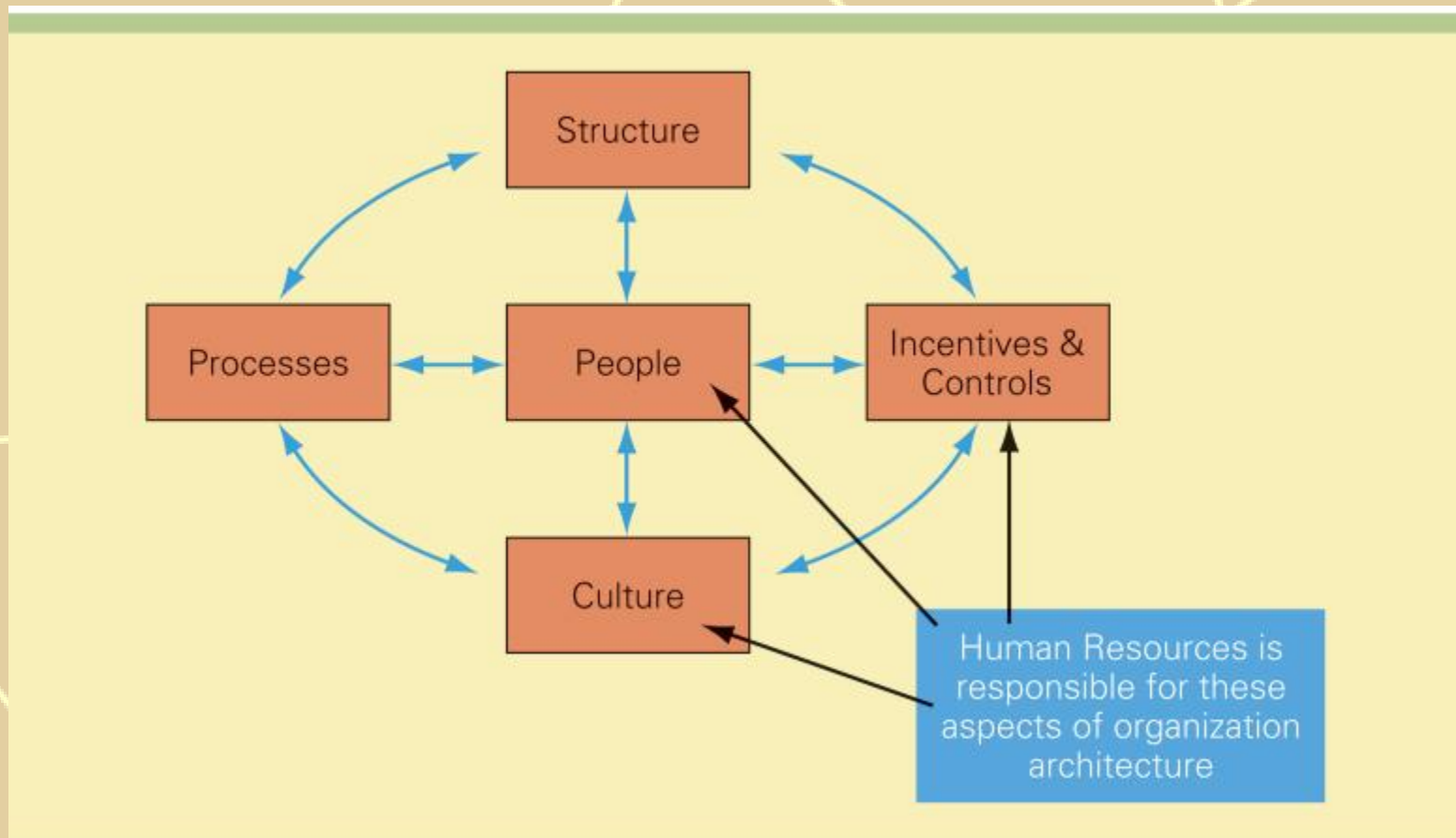
- ❖ HRM can help the firm reduce the costs of value creation and add value by better serving customer needs
- ❖ HRM is more complex in an international business because of differences between countries in labor markets, culture, legal systems, economic systems, and so on
- ❖ HRM must also determine when to use **expatriate managers** (citizens of one country working abroad), who should be sent on foreign assignments, how they should be compensated, how they should be trained, and how they should be reoriented when they return home

The Strategic Role Of International HRM

- ❖ Firms need to ensure there is a fit between their human resources practices and strategy
- ❖ In order to carry out a strategy effectively, employees need the right training, an appropriate compensation package, and a good performance appraisal system

The Strategic Role Of International HRM

Figure 18.1: The Role of Human Resources in Shaping Organizational Architecture



Staffing Policy

- ❖ A firm's **staffing policy** is concerned with the selection of employees who have the skills required to perform a particular job
- ❖ A staffing policy can be a tool for developing and promoting the firm's **corporate culture** (the organization's norms and value system)
- ❖ A strong corporate culture can help the firm implement its strategy

Types Of Staffing Policy

There are three main approaches to staffing policy within international businesses:

1. the ethnocentric approach
2. the polycentric approach
3. the geocentric approach

Classroom Performance System

The three types of staffing approaches for international firms include all of the following *except*

- a) Transnational
- b) Ethnocentric
- c) Geocentric
- d) Polycentric

Types Of Staffing Policy

1. The **ethnocentric approach** to staffing policy fills key management positions with parent-country nationals

- ❖ It makes sense for firms with an international strategy

Firms that pursue an ethnocentric policy believe that:

- ❖ there is a lack of qualified individuals in the host country to fill senior management positions

- ❖ it is the best way to maintain a unified corporate culture

- ❖ value can be created by transferring core competencies to a foreign operation via parent country nationals

Types Of Staffing Policy

The ethnocentric staffing policy is no longer popular with most firms because:

- ❖ it limits advancement opportunities for host country nationals
- ❖ it can lead to "cultural myopia"

Types Of Staffing Policy

2. The **polycentric staffing policy** recruits host country nationals to manage subsidiaries in their own country, and parent country nationals for positions at headquarters
- ❖ It makes sense for firms pursuing a localization strategy

The polycentric approach:

- ❖ can minimize cultural myopia
- ❖ may be less expensive to implement than an ethnocentric policy

Types Of Staffing Policy

- There are two disadvantages to the polycentric approach:
- ❖ host country nationals have limited opportunities to gain experience outside their own country and thus cannot progress beyond senior positions in their own subsidiaries.
 - ❖ a gap can form between host country managers and parent country managers

Types Of Staffing Policy

3. The **geocentric staffing policy** seeks the best people, regardless of nationality for key jobs

- ❖ This approach is consistent with building a strong unifying culture and informal management network
- ❖ It makes sense for firms pursuing either a global or transnational strategy
- ❖ Immigration policies of national governments may limit the ability of a firm to pursue this policy

Types Of Staffing Policy

The geocentric approach:

- ❖ enables the firm to make the best use of its human resources
- ❖ builds a cadre of international executives who feel at home working in a number of different cultures
- ❖ can be limited by immigration laws
- ❖ is costly to implement

Types Of Staffing Policy

Table 18.1: Comparison of Staffing Approaches

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

Classroom Performance System

Firms using _____ fill all key management positions with parent-country nationals.

- a) An ethnocentric staffing policy
- b) A geocentric staffing policy
- c) A polycentric staffing policy
- d) A transcenic staffing policy

Classroom Performance System

When a firm wants to pursue a transnational strategy, a _____ approach to staffing makes sense.

- a) Ethnocentric
- b) Geocentric
- c) Polycentric
- d) Transcentric

Expatriate Managers

- ❖ **Expatriate failure** is the premature return of an expatriate manager to his or her home country
- ❖ Between 16 and 40 percent of all American expatriates in developed countries fail to complete their assignments, and almost 70 percent of Americans assigned to developing countries return home early
- ❖ Each expatriate failure can cost between \$250,000 and \$1 million

Expatriate Managers

Table 18.2: Expatriate Failure Rates

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

Expatriate Managers

Research shows the main reasons for expatriate failure for U.S. multinationals are:

- ❖ the inability of an expatriate's spouse to adapt the inability of the employee to adjust
- ❖ the manager's inability to adjust
- ❖ other family-related reasons
- ❖ the manager's personal or emotional maturity
- ❖ the manager's inability to cope with larger overseas responsibilities

Expatriate Managers

For European firms, only one reason was found to consistently explain expatriate failure:

- ❖ the inability of the manager's spouse to adjust to a new environment

For Japanese firms, the reasons for failure are:

- ❖ the inability to cope with larger overseas responsibility
- ❖ difficulties with the new environment
- ❖ personal or emotional problems
- ❖ a lack of technical competence
- ❖ the inability of spouse to adjust

Classroom Performance System

The most common reason for expatriate failure is

- a) The manager's inability to adjust
- b) The manager's emotional or personal maturity
- c) The inability of the spouse to adjust
- d) The manager's lack of technical competence

Expatriate Managers

❖ Firms can reduce expatriate failure through improved selection procedures

Four dimensions that predict expatriate success are:

1. **self-orientation** - the expatriate's self-esteem, self-confidence, and mental well-being
2. **others-orientation** - the ability to interact effectively with host-country nationals
3. **perceptual ability** - the ability to understand why people of other countries behave the way they do
4. **cultural toughness** – the ability to adjust to the posting

Classroom Performance System

Which of the following does *not* help predict success in a foreign positing?

- a) Others-orientation
- b) Cultural toughness
- c) Perceptual ability
- d) Technical expertise

The Global Mindset

- ❖ A global mindset may be the fundamental attribute of a global manager
- ❖ A global mindset is often acquired early in life from a family that is bicultural, lives in foreign countries, or learns foreign languages as a regular part of family life

Training And Management Development

- ❖ **Training** focuses upon preparing the manager for a specific job
- ❖ **Management development** is concerned with developing the skills of the manager over his or her career with the firm
- ❖ Historically, most firms focus more on training than on management development

Training For Expatriate Managers

- ❖ **Cultural training** (seeks to foster an appreciation for the host country's culture), **language training** (an exclusive reliance on English diminishes an expatriate manager's ability to interact with host country nationals), and **practical training** (helps the expatriate manager and her family ease themselves into day-to-day life in the host country) have all help reduce expatriate failure
- ❖ Yet, according to one study only about 30 percent of managers sent on one- to five-year expatriate assignments received training before their departure

Repatriation Of Expatriates

- ❖ Preparing and developing expatriate managers for reentry into their home country organization is an important part of training and development
- ❖ HRM needs to develop good programs for re-integrating expatriates back into work life within their home country organization once their foreign assignment is over, and for utilizing the knowledge they acquired while abroad

Management Development And Strategy

Management development programs increase the overall skill levels of managers by:

- ❖ ongoing management education
- ❖ rotations of managers through jobs within the firm to give them varied experiences
- ❖ Management development is often used as a strategic tool to build a strong unifying culture and informal management network, both of which are supportive of a transnational and global strategy

Performance Appraisal

- ❖ Performance appraisal systems are part of the firm's control system
- ❖ Evaluating expatriates can be especially complex

Performance Appraisal Problems

- ❖ Typically, both host nation managers and home office managers evaluate the performance of expatriate managers
- ❖ Both types of managers are subject to unintentional bias
- ❖ Home country managers tend to rely on hard data when evaluating expatriates, while host country managers can be biased towards their own frame of reference

Guidelines For Performance Appraisal

To reduce bias in performance appraisal:

- ❖ most expatriates believe more weight should be given to an on-site manager's appraisal than to an off-site manager's appraisal
- ❖ a former expatriate who has served in the same location could be involved in the appraisal process to help reduce bias
- ❖ when foreign on-site managers write performance evaluations, home office managers should be consulted before an on-site manager completes a formal termination evaluation

Compensation

Firms face two key issues on compensation:

1. how to adjust compensation to reflect differences in economic circumstances and compensation practices
2. how to pay expatriate managers

National Differences In Compensation

- ❖ There are substantial differences in executive compensation across countries
- ❖ In the U.S., a top HR executive made an average of \$525,923 in the 2005-2006 period, compared to \$237,697 in Japan, and just \$158,146 in Taiwan
- ❖ Firms have to decide whether to pay executives in different countries according to the prevailing standards in each country, or equalize pay on a global basis
- ❖ This is an especially challenging issue in firms with geocentric staffing policies
- ❖ Many firms have recently moved toward a compensation structure that is based on global standards

Expatriate Pay

- ❖ Most firms use the **balance sheet approach** to pay
- ❖ This equalizes purchasing power across countries so employees have the same living standard in their foreign posting as at home

An expatriate's compensation package is made up of:

1. base salary
2. a foreign service premium
3. various allowances
4. tax differentials
5. benefits

Expatriate Pay

1. Base Salary

- ❖ An expatriate's base salary is normally in the same range as the base salary for a similar position in the home country
- ❖ Base salary can be paid wither in the home currency or in the local currency

2. Foreign Service Premium

- ❖ A foreign service premium is extra pay the expatriate receives for working outside his or her country of origin
- ❖ It is generally offered as an incentive to accept foreign assignments

Expatriate Pay

3. Allowances

Expatriate compensation package often include :

- ❖ hardship allowances
- ❖ housing allowances
- ❖ cost-of-living allowances
- ❖ education allowances

Expatriate Pay

4. Taxation

❖ The expatriate may have to pay income tax to both the home country and the host-country governments if the host country does not have a reciprocal tax treaty with the expatriate's home country

5. Benefits

❖ Many firms provide the same level of medical and pension benefits abroad that they received at home

International Labor Relations

- ❖ The key issue in international labor relations is the degree to which organized labor is able to limit the choices available to an international business
- ❖ A firm's ability to pursue a transnational or global strategy can be significantly constrained by the actions of labor unions
- ❖ HRM needs to foster harmony and minimize conflict between the firm and organized labor

The Concerns Of Organized Labor

- ❖ The bargaining power of unions comes from their ability to threaten to disrupt production by striking or protesting

However, organized labor is concerned that:

- ❖ multinationals can counter union bargaining power by threatening to move production to another country
- ❖ multinationals will farm out only low-skilled jobs to foreign plants making it easier to switch production locations
- ❖ multinationals will import employment practices and contractual agreements from their home countries and reduce the influence of unions

The Strategy Of Organized Labor

Organized labor has responded to the increased bargaining power of multinational corporations by:

- ❖ trying to set-up their own international organizations
- ❖ lobbying for national legislation to restrict multinationals
- ❖ trying to achieve regulations of multinationals through international organization such as the United Nations
- ❖ However, these efforts have had only limited success

Approaches To Labor Relations

- ❖ In the past, labor relations have usually been decentralized to individual subsidiaries
- ❖ Today, many firms are centralizing labor relations in order to enhance the bargaining power of the multinational vis-à-vis organized labor
- ❖ Many firms are recognizing that the way in which work is organized within a plant can be a major source of competitive advantage

Classroom Performance System

Which of the following is *not* a response by labor to the increased bargaining power of multinationals?

- a) Establishing global unions
- b) Setting-up their own international organizations
- c) Lobbying for national legislation to restrict multinationals
- d) Trying to achieve regulations of multinationals through international organization such as the United Nations