



# Global Business Today 6e

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## Chapter 16

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# Global Human Resource Management

# Introduction

Question: What is human resource management?

- Human resource management (HRM) refers to the activities an organization carries out to utilize its human resources effectively
- HRM activities include
  - determining human resource strategy
  - staffing
  - performance evaluation
  - management development
  - compensation
  - labor relations

# Introduction

- HRM is more complex in an international business because of differences between countries in labor markets, culture, legal systems, economic systems, and so on
- International HRM also deals with issues related to **expatriate managers** (citizens of one country working abroad) including
  - when to use expatriates
  - who to send on expatriate posting
  - how expatriates should be compensated
  - how to handle the repatriation of expatriates

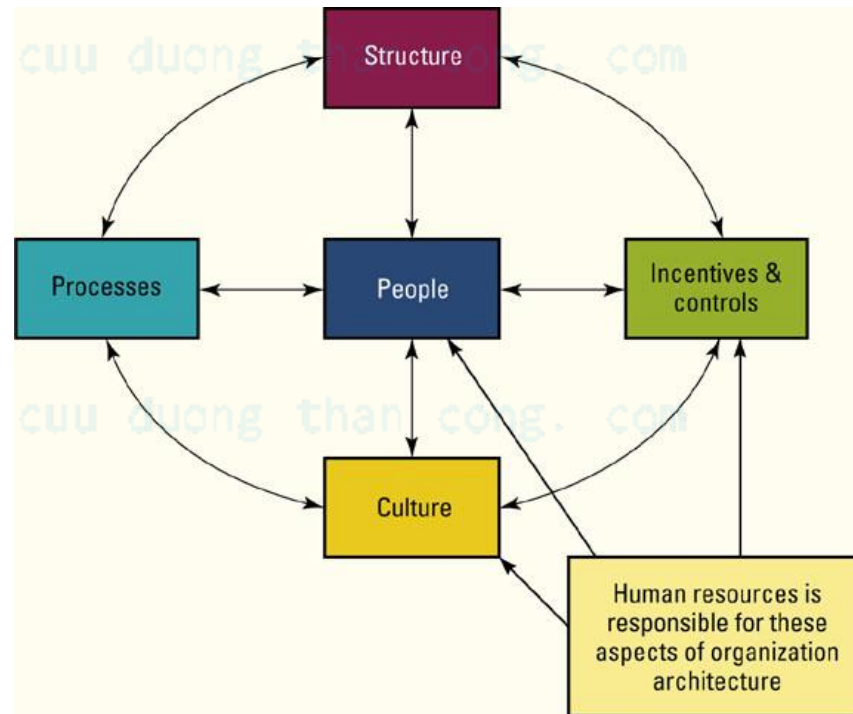
# The Strategic Role of International HRM

**Question:** Why is international HRM important to the success of the firm?

- Strategy is implemented through organization
- People are the linchpin to the firm's organization architecture
- So, success in international business requires that HRM policies be congruent with the firm's strategy

# The Strategic Role of International HRM

## The Role of Human Resources in Shaping Organization Architecture



# Staffing Policy

- Staffing policy is concerned with the selection of employees for a particular job
  - It involves selecting people who have the right skills for a particular job
  - It also involves developing and promoting the corporate culture of the firm (the organization's norms and value systems)

# Types of Staffing Policy

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- There are three types of staffing policies
  1. the ethnocentric approach
  2. the polycentric approach
  3. the geocentric approach
- The most attractive policy is the geocentric approach, however it is not always easy to implement



# Types of Staffing Policy

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## 1. The Ethnocentric Approach

- An **ethnocentric approach** to staffing policy is one in which key management positions in an international business are filled by parent-country nationals
- The policy makes most sense for firms pursuing an international strategy

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# Types of Staffing Policy

- An ethnocentric staffing policy is attractive when
  - the firm believes there is a lack of qualified individuals in the host country to fill senior management positions
  - the firm sees an ethnocentric staffing policy as the best way to maintain a unified corporate culture
  - the firm wants to transfer knowledge of core competencies to the foreign operation
- This policy is falling out of favor because
  - it limits the advancement of host country nationals
  - it can lead to cultural myopia

# Types of Staffing Policy

- The ethnocentric approach to staffing is falling out of favor because
  - it limits the advancement of host country nationals
    - This can lead to resentment, lower productivity, and increased turnover
  - it can lead to **cultural myopia** (the firm's failure to understand host-country cultural differences that require different approaches to marketing and management)

# Types of Staffing Policy

## 2. The Polycentric Approach

- A **polycentric** staffing policy is one in which host country nationals are recruited to manage subsidiaries in their own country, while parent country nationals occupy the key positions at corporate headquarters
- This approach minimizes the dangers of cultural myopia, but it also helps create a gap between home and host country operations
- The polycentric policy is best suited to firms pursuing a localization strategy

# Types of Staffing Policy

- The advantages of the polycentric policy are that
  - the firm is less likely to suffer from cultural myopia
  - it may be less expensive to implement
- The disadvantages of the polycentric policy are that
  - host country nationals have few opportunities to gain foreign experience and so 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 Approach

- A **geocentric** staffing policy is one in which the best people are sought for key jobs throughout the organization, regardless of their nationality
- 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 advantages of a geocentric approach to staffing are that it
  - 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
- The disadvantages of geocentric approach include
  - difficulties with immigration laws
  - costs associated with implementing the strategy

# Types of Staffing Policy

## 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

A \_\_\_\_\_ approach to staffing makes sense when a firm wants to pursue a transnational strategy.

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

# Classroom Performance System

A staffing approach in which all key management positions are filled by parent-country nationals is called

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

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# Expatriate Managers

- Firms that use expatriates must consider the problem of **expatriate failure** (the premature return of an expatriate manager to his home country)
- U.S. firms have higher expatriate failure rates than either European or Japanese firms
  - Studies show that 76 percent of U.S. MNEs had expatriate failure rates of 10 percent or more – 7 percent had failure rates as high as 20 percent
  - Estimates of the cost of expatriate failure range from \$250,000 million to \$1 million

# Expatriate Managers

- The main reasons for expatriate failure for U.S. MNEs are
  - the inability of an expatriate's spouse to adapt to a foreign culture
  - the inability of the employee to adjust
  - other family-related reasons
  - the manager's personal or emotional maturity
  - the 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 were
  - 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

Studies show 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

**Question:** How can firms reduce the rate of expatriate failure?

- Expatriate failure rates can be reduced through better selection procedures
- Mendenhall and Oddou identified four dimensions that predict expatriate success
  1. self-orientation
  2. others-orientation
  3. perceptual ability
  4. cultural toughness

# Expatriate Managers

1. **Self-orientation** attributes strengthen the expatriate's self-esteem, self-confidence, and mental well-being
2. **Others orientation** refers to how the attributes of this dimension enhance the expatriate's ability to interact effectively with host-country nationals
3. **Perceptual ability** refers to the ability to understand why people of other countries behave the way they do
4. **Cultural toughness** refers to the fact that how well an expatriate adjusts to a particular posting tends to be related to the country of assignment



# Classroom Performance System

Dimensions that help predict success in a foreign positing include all of the following except

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

# The Global Mindset

- Some experts believe that a global mindset (one that is characterized by cognitive complexity and a cosmopolitan outlook) is essential to the success of global managers
- Yet, studies show that few firms consider this when selecting expatriate managers, and instead focus on technical expertise

# Training and Management Development

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**Question:** How should firms prepare expatriate for their foreign postings?

- Training focuses upon preparing the manager for a specific job
- Management development focuses on developing the skills of the manager over her career with the firm
- Traditionally, training has been considered more important than management development, however this mindset is beginning to shift

# Training for Expatriate Managers

**Question:** How can firms reduce expatriate failure?

- To reduce expatriate failure, firms should provide
  - 1. **Cultural training** - seeks to foster an appreciation for the host country's culture
  - 2. **Language training** - improves the effectiveness of managers and helps them better relate to the foreign country
  - 3. **Practical training** - helps the expatriate manager and family ease into day-to-day life of the host country

# Repatriation of Expatriates

**Question:** How should firms prepare expatriates for their return?

- Managers need to be prepared for reentry into their home country organization
- This involves HRM planning to determine
  - the role of the employee in the home country at the end of the assignment
  - how to utilize the knowledge the employee acquired while abroad

# Management Development and Strategy

**Question:** How can firms use management development as a strategic tool?

- Management development programs increase the skill levels of managers through
  - management education
  - the rotation of managers through jobs
- 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

**Question:** How should employees be evaluated?

- Performance appraisal systems are used to evaluate employees
- These systems are important components in the firm's control system

# Performance Appraisal Problems

**Question:** Why is it difficult to evaluate the performance of expatriates?

- When evaluating employees,
  - home country managers tend to rely on hard data
  - host country managers can be biased towards their own frame of reference
- So, many firms rely on both groups to evaluate the performance of expatriate managers



# Guidelines for Performance Appraisal

**Question:** How can firms reduce the bias in performance evaluations?

- To reduce bias
  - 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 should be involved in the appraisal process
  - home office managers should probably be consulted before an on-site manager completes a formal termination evaluation

# Compensation

**Question:** What are the key compensation issues for international firms?

○ There are two key issues

1. how compensation should be adjusted to reflect national differences in economic circumstances and compensation practices
2. how expatriate managers should be paid

# National Differences in Compensation

**Question:** Should firms pay executives in different countries according to the prevailing standards in each country, or should it equalize pay on a global basis?

- Firms using a geocentric policy that want to develop an international cadre of managers must pay executives the same salary regardless of their country of origin
  - If a firm does not equalize pay, it could create resentment among foreign nationals

# Expatriate Pay

- The most common approach to expatriate pay is the balance sheet approach
- This approach equalizes purchasing power across countries so employees can have the same standard of living in the foreign country as they do at home
- The components of the typical compensation package are
  1. base salary
  2. a foreign service premium
  3. allowances of various types
  4. benefits
  5. tax differentials

# Expatriate Pay

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## 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

## 2. Foreign Service Premium

- A foreign service premium is extra pay the expatriate receives for working outside his country of origin
  - It is offered as an inducement to accept foreign postings

# Expatriate Pay

## 3. Allowances

- Four types of allowances are often included in a package
  - hardship allowances
  - housing allowances
  - cost-of-living allowances
  - education allowances

## 4. Benefits

- Many firms also ensure that their expatriates receive the same level of medical and pension benefits abroad that they received at home

# Expatriate Pay

## 5. Taxation

- Unless a host country has a reciprocal tax treaty with the expatriate's home country, the expatriate may have to pay income tax to both the home country and the host-country governments
- When a reciprocal tax treaty is not in force, the firm typically pays the expatriate's income tax in the host country

# International Labor Relations

**Question:** How can 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
- So, the HRM function must foster harmony and minimize conflict between management and labor



# The Concerns of Organized Labor

**Question:** What are the concerns of organized labor?

- Organized labor has three main concerns
  1. that the multinational can counter union bargaining power by threatening to move production to another country
  2. that multinationals will keep highly skilled tasks in the home country and farm out only low skilled tasks
  3. that imported employment practices and contractual agreements will reduce its influence and power

# The Strategy of Organized Labor

**Question:** How can organized labor respond to the power of multinationals?

- Organized labor has responded to the increased bargaining power of multinationals 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
- So far, these efforts have had only limited success

# Approaches to Labor Relations

**Question:** How do firms approach labor relations?

- Traditionally, most labor relations have been decentralized to individual subsidiaries
- However, because many firms are realizing that the way in which work is organized within a plant can be a major source of competitive advantage, there is a shift towards greater centralization to enhance the bargaining power of the multinational vis-à-vis organized labor
- In addition, many firms are realizing how work is organized within a plant can be a source of competitive advantage

# Classroom Performance System

Labor has responded to the increased bargaining power of multinationals by doing all of the following except

- a) Establishing global unions
- b) Trying to set-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

# Critical Discussion Question

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1. What are the main advantages and disadvantages of the ethnocentric, polycentric, and geocentric approaches to staffing policy? When is each approach appropriate?

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# Critical Discussion Question

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2. Research suggests that many expatriate employees encounter problems that limit both their effectiveness in a foreign posting and their contribution to the company when they return home. What are the main causes and consequences of these problems, and how might a firm reduce the occurrence of such problems?

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# Critical Discussion Question

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3. What is the link between an international business's strategy and its human resource management policies, particularly with regard to the use of expatriate employees and their pay scale?

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# Critical Discussion Question

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4. In what ways can organized labor constrain the strategic choices of an international business? How can an international business limit these constraints?

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# Critical Discussion Question

5. Reread the Management Focus on McDonald's global compensation practices. How does McDonald's approach help the company to take local differences into account when reviewing the performance of different country managers and awarding bonus pay?