

# Managing Human Resources Globally

### WHAT DO I NEED TO KNOW?

**After reading this chapter, you should be able to:**

- LO1** Summarize how the growth in international business activity affects human resource management.
- LO2** Identify the factors that most strongly influence HRM in global markets.
- LO3** Discuss how international operations impact human resource practices including workforce planning, selection, training and development, performance management, total rewards, and labour relations.
- LO4** Explain how employers manage and prepare employees for international assignments and for their return home.



THE CANADIAN PRESS/Pawel Dwulit

Tim Hortons has its sights set on continued global growth.

## Tim Hortons' Launch into China

Tim Hortons recently announced plans to open more than 1,500 restaurants in China over the next 10 years through a joint venture of its parent company, Restaurant Brands International (RBI) and Cartesian Capital Group. RBI is following the global expansion business model it used to bring 900 Burger King establishments to China. “China’s population and vibrant economy represent an excellent growth opportunity for Tim Hortons in the coming years,” said Tim Hortons’ President Alex Macedo. Tim Hortons has more than 4,700 restaurants located in Canada and the United States as well as several other countries including Ireland, Saudi Arabia, Qatar, United Arab Emirates, Mexico, the Philippines, and the United Kingdom.

But these plans for global expansion are coming at a time when Tim Hortons’ reputation has been “taking a beating as it sinks in another ranking” according to a report from New York–based Reputation Institute, and research organization Legér Marketing. Tim Hortons received a 50th ranking, well behind MEC and Canadian Tire, which both earned “Top 20” status.

However, the expansion to China likely cannot come soon enough for former University of Waterloo student Deng Yongning Nui, who is now back in China. “The coffee and doughnuts of Tim Hortons are amazing. I miss the Tim Hortons French Vanilla so much now.”<sup>1</sup>

## Introduction

This chapter discusses the HR issues that organizations must address in a world of global competition. We begin by describing how the global nature of business is affecting human resource management in organizations. Next, we identify how global differences among countries affect organizations’ decisions about human resources. In the following section we explore various HRM practices in international settings. Finally, we examine considerations for managing and preparing employees for global assignments and their return.

## 10.1 HRM in a Global Environment

The environment in which organizations operate is rapidly becoming a global one. More and more companies are entering international markets by exporting their products, building facilities in other countries, and entering into alliances with international companies. At the same time, companies based in other countries are investing in setting up operations in Canada. Indeed, most organizations now function in the global economy. The HRM function needs to continuously reexamine its role in supporting this

expanding pace of business globalization. This requires HRM to:

- align HRM processes and functions with global requirements
- adopt a *global mindset* including a thorough understanding of the global environment and the impact on managing people worldwide
- enhance its own capabilities and competencies to become a business partner in acting on global business opportunities<sup>2</sup>

What is behind the trend toward expansion into global markets? Global expansion can provide a business with new markets in which there are millions or billions of new customers; developing countries often provide such markets, but developed countries do so as well. In addition, companies may set up operations in other countries to achieve lower labour costs. Together, this mix of advantages can cause the location of business activities to flow from one country to another. For example, low wages drew many manufacturing operations to China, but then competition in the labour markets pushed up wages. In the textile and clothing industries, many companies moved to Vietnam to take advantage of lower wage rates, although the Chinese government has held on to others by offering subsidies and other incentives to stay.<sup>3</sup> In other cases, Chinese companies have followed the Japanese and U.S. pattern of improving efficiency and flexibility, so they can compete on customer service as well as cost. These companies are staying in place but offering higher-value services.<sup>4</sup>

Finally, due to advances in telecommunications and information technology, companies can more easily spread work around the globe, wherever they find the right mix of labour costs and abilities. Teams with members in different time zones can keep projects moving around the clock,



Photo: Vincent Tsang, courtesy of Manitobah Mukluks.

With sales in 45 countries, Manitobah Mukluks is an Indigenous-owned company with a vibrant global brand. Approximately 80 percent of the footwear is created in company-owned and supplied ethical factories overseas—mostly in Vietnam. The remaining 20 percent is made in Winnipeg, Manitoba.<sup>5</sup>



or projects can be assigned according to regions with particular areas of expertise.

Global activities are simplified and encouraged by trade agreements among nations. For example, most countries in Western Europe belong to the European Union (EU) and share a common currency, the euro. Canada, Mexico, and the United States encouraged trade among themselves with the North American Free Trade Agreement (NAFTA), and the Trans-Pacific Partnership (TPP) brought together 12 countries including Canada, the United States, Australia, Brunei, Japan, Malaysia, Vietnam, and others as trading partners. However, these trade agreements have recently faced disruptions:<sup>6</sup>

- **Brexit (Britain + exit)**—Although the June 2016 referendum had a narrow margin of support from U.K. voters, the United Kingdom is scheduled to leave the EU as of March 29, 2019, with a full transition to occur by December 31, 2020.
- **Trade tariffs and NAFTA becomes USMCA**—Trade tariffs were imposed by the United States on its NAFTA partners (as well as other global trading partners) in 2018. Retaliatory tariffs followed and NAFTA was recently revamped and renamed USMCA (United States–Mexico–Canada Agreement).
- **TPP became the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership)**—The United States announced that it would be exiting from the TTP. Canada and the other 10 other nations signed a new deal in 2018.

As these trends and arrangements impact international trade, they increase and change the demands on human resource management. Organizations with customers or suppliers in other countries need employees who understand those customers or suppliers. Organizations that operate facilities internationally need to understand the laws and customs that apply to employees in those countries. They may have to prepare managers and other employees to take international assignments. They have to adapt their human resource plans and policies to different settings. Even if some practices are the same worldwide, the company now has to communicate them to its international workforce. A variety of international activities requires managers to understand HRM principles and practices prevalent in global markets.

CPHR Canada (Chartered Professionals in Human Resources Canada) and the United States Society of Human Resources Management (SHRM) recently signed a collaborative certification agreement. Anthony Ariganello, CEO of CPHR Canada, explained: “Globalization is having tremendous impacts on jobs, workplaces and economies of scale all over the world. It’s more important than ever that the human resources profession creates these international alliances to help members from each other’s country get certified, if they so choose. Members

can be recognized as internationally qualified, which then helps position our members to better serve employers and employees.”<sup>7</sup>

And to specifically meet the complex and challenging requirements of employee mobility, the Canadian Employee Relocation Council (CERC) created the Canadian Global Mobility Professional (CGMP) designation. The program consists of three levels of study with each level providing a specific designation. The Level III designation focuses on global mobility and is called “Essentials of International Relocation.”<sup>9</sup>

## Employees in an International Workforce

When organizations operate globally, their employees are very likely to be citizens of more than one country. Employees may come from the employer’s home country, a host country, or a third country.

The **home country** is the country in which the organization’s headquarters is located. For example, Canada is the home country of Fairmont Hotels and Resorts, because Fairmont’s headquarters are in Toronto.

A Fairmont employee who is a Canadian citizen and works at Fairmont’s headquarters or one of its Canadian properties is therefore a *home-country national*.

A **host country** is a country (other than the home country) in which an organization operates a facility. Barbados is a host country of Fairmont because Fairmont has operations there. Any Barbadian workers hired to work at a Fairmont Barbados property would be *host-country nationals*; that is, employees who are citizens of the host country.

A **third country** refers to a country that is neither the home country nor the host country. (The organization may or may not have a facility in the third country.) In the example of Fairmont’s operations in Barbados, the company could hire an Australian manager to work there. The Australian manager would be a *third-country national*, because the manager is neither from the home country (Canada) nor from the host country (Barbados).

When organizations operate globally, they need to decide whether to hire home-country nationals, host-country nationals, or third-country nationals for the international operations. Usually, they hire a combination of these. In general, employees who take assignments in other countries are called *expatriates*. In the Fairmont

### home country

The country in which an organization’s headquarters is located.

### host country

A country (other than the home country) in which an organization operates a facility.

### third country

A country that is neither the home country nor the host country of an employer.



The Washington Post/Getty Images

Founded in 1998, Vancouver-based athleisure giant Lululemon continues its aggressive plans for global growth. International sales are projected to contribute \$1 billion of annual revenue by 2020.<sup>8</sup>

example, the Canadian and Australian managers working in Barbados would be expatriates during those assignments.

The extent to which organizations use home-country, host-country, or third-country nationals varies. Groupon, for example, tried using home-country employees for its expansion into the Chinese market. Unfortunately, while these employees may have understood the online deals site's business model, they didn't understand their Chinese suppliers, customers, and competitors well enough to build the relationships necessary for success. Conversely, Disney struggled with its original intention to hire host-country nationals to work as chefs in Euro Disneyland, located outside Paris. French chefs assumed that a theme park would not serve fine food, and they were reluctant to take jobs far from the city. Therefore, before Disney had established a local reputation for great service, it turned to recruiting at Dutch culinary schools and North American hotel chains.<sup>10</sup>

## Employers in the Global Marketplace

Just as there are different ways for employees to participate in international business—as home-country, host-country, or third-country nationals—so there are different ways

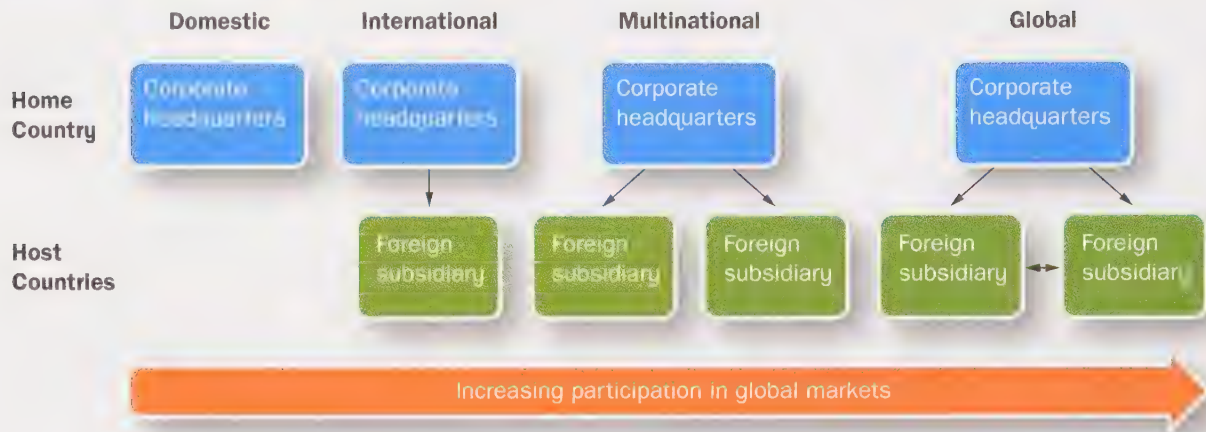
for employers to do business globally, ranging from simply shipping products to customers in other countries to transforming the organization into a truly global one, with operations, employees, and customers in many countries. Figure 10.1 shows the major levels of global participation.

Most organizations begin by serving customers and clients within a domestic marketplace. Typically, a company's founder has an idea for serving a local, regional, or national market. The business must recruit, hire, train, and compensate employees to produce the product, and these people usually come from the business owner's local labour market. Selection and training focus on employees' technical abilities and, to some extent, on interpersonal skills. Pay levels reflect local labour conditions. If the product succeeds, the company might expand operations to other domestic locations, and HRM decisions become more complex as the organization draws from a larger labour market and needs systems for training and engaging employees in several locations. As the employer's workforce grows, it is also likely to become more diverse. Even in small domestic organizations, a significant share of workers are from other countries. In this way, even domestic companies are affected by issues related to the global economy.



FIGURE 10.1

## Levels of Global Participation



Source: Proxy Statement, Merck & Co., Inc., April 14, 2014, [www.merck.com/finance/proxy/pr2014.pdf](http://www.merck.com/finance/proxy/pr2014.pdf).

As organizations grow, they often begin to meet demand from customers in other countries. The usual way that a company begins to enter global markets is by *exporting*, or shipping domestically produced items to other countries to be sold there. Eventually, it may become economically desirable to set up operations in one or more foreign countries. An organization that does so becomes an **international organization**. The decision to participate in international activities raises a host of HR issues, including the basic question of whether a particular location provides an environment where the organization can successfully acquire and manage human resources.

While international companies build one or a few facilities in another country, **multinational companies** expand on a broader scale. They build facilities in a number of different countries as a way to keep production and distribution costs to a minimum. In general, when organizations become multinationals, they move production facilities from relatively high-cost locations to lower-cost locations. The lower-cost locations may have lower average wage rates, or they may reduce distribution costs by being nearer to customers. The HRM challenges faced by a multinational company are similar but larger than those of an international organization, because more countries are involved. More than ever, the organization needs to hire people who can function in a variety of settings, give them necessary training, and provide flexible

**international organization** An organization that sets up one or a few facilities in one or a few foreign countries.

**multinational company** An organization that builds facilities in a number of different countries in an effort to minimize production and distribution costs.

compensation systems that take into account the different pay rates, tax systems, and costs of living from one country to another.

At the highest level of involvement in the global marketplace are **global organizations**. These flexible organizations compete by offering top products tailored to segments of the market while keeping costs as low as possible. A global organization locates each facility based on the ability to effectively, efficiently, and flexibly produce a product or service, using cultural differences as an advantage. Rather than treating differences in other countries as a challenge to overcome, a global organization treats different cultures as a source of competitive advantage. It may have multiple headquarters spread across the globe, so decisions are more decentralized. This type of organization needs HRM practices that encourage flexibility and agility and are based on an in-depth knowledge of differences among countries. Global organizations must be able to recruit, develop, retain, and fully utilize employees who can get results across national boundaries.

A global organization needs a **transnational HRM system**<sup>11</sup> that features decision making from a global perspective, managers from many countries, and ideas contributed by people from a variety

**global organizations** Organizations that choose to locate a facility based on the ability to effectively, efficiently, and flexibly produce a product or service, using cultural differences as an advantage.

**transnational HRM system** Type of HRM system that makes decisions from a global perspective, includes managers from many countries, and is based on ideas contributed by people representing a variety of cultures.

of cultures. Decisions that are the outcome of a transnational HRM system balance uniformity (for fairness) with flexibility (to account for cultural and legal differences). This balance and the variety of perspectives should work together to improve the quality of decision making. The participants from various countries and cultures contribute ideas from a position of equality, rather than the home country's culture dominating.

## 10.2 What Factors Affect HRM in International Markets?

Whatever their level of global participation, organizations that operate in more than one country must recognize that the countries are not identical and differ in terms of many factors. To simplify this discussion, we focus on four major factors:

- culture
- education and skill levels
- economic system
- political–legal system

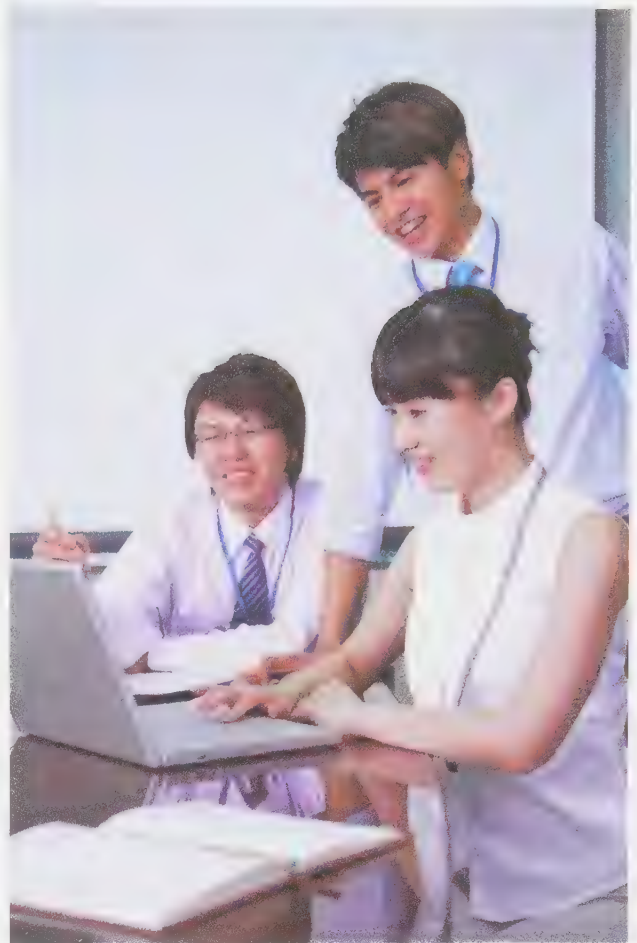
### Culture

By far the most important influence on global HRM is the culture of the country in which a facility is located. *Culture* is a community's set of shared assumptions about how the world works and what ideals are worth striving for.<sup>12</sup> Cultural influences may be expressed through customs, languages, religions, and so on.

Culture is important to HRM for two reasons. First, it often determines the other three global influences. Culture can greatly affect a country's laws, because laws often are based on the culture's definitions of right and wrong. Culture also influences what people value, so it affects people's economic systems and efforts to invest in education.

Even more important for understanding human resource management, culture often determines the effectiveness of various HRM practices. Practices that are effective in Canada, for example, may fail or even backfire in a country with different beliefs and values.<sup>13</sup> Consider the six dimensions of culture that Geert Hofstede identified in his study of culture:<sup>14</sup>

1. *Individualism/collectivism* describes the strength of the relation between an individual and other individuals in the society. In cultures that are high in individualism, such as Canada, the United States, and the Netherlands, people tend to think and act as individuals rather than as members of a group. In cultures that are high in collectivism, such as Columbia, Pakistan, and Taiwan, people think of



© Imagomore Co., Ltd./Corbis

In Taiwan, a country that is high in collectivism, co-workers consider themselves more as group members instead of individuals.

themselves mainly as group members. They are expected to devote themselves to the interests of the community, and the community is expected to protect them when they are in trouble.

2. *Power distance* concerns the way the culture deals with unequal distribution of power and defines the amount of inequality that is normal. In countries with large power distance, including India and the Philippines, the culture defines it as normal to maintain large differences in power. In countries with low power distance, such as Denmark and Israel, people try to eliminate inequalities. One way to see differences in power distance is in the way people talk to one another. In the high-power distance countries of Mexico and Japan, people address one another with titles (e.g., Señor Smith, Smith-san). At the other extreme, in Canada, in most situations people use one another's first names—behaviour that would be disrespectful in some other cultures.
3. *Uncertainty avoidance* describes how cultures handle the fact that the future is unpredictable. High uncertainty avoidance refers to a strong cultural



preference for structured situations. In countries such as Greece and Portugal, people tend to rely heavily on religion, law, and technology to give them a degree of security and clear rules about how to behave. In countries with low uncertainty avoidance, including Singapore and Jamaica, people seem to take each day as it comes.

4. *Masculinity/femininity* is the emphasis a culture places on practices or qualities that have traditionally been considered masculine or feminine. A “masculine” culture is a culture that values achievement, money making, assertiveness, and competition. A “feminine” culture is one that places a high value on relationships, service, care for others, and preserving the environment. In this model, Germany and Japan are examples of masculine cultures, and Sweden and Norway are examples of feminine cultures.
5. *Long-term/short-term orientation* suggests whether the focus of cultural values is on the future (long term) or the past and present (short term). Cultures with a long-term

orientation value saving and persistence—which tend to pay off in the future. Many Asian countries, including Japan and China, have a long-term orientation. Short-term orientation, as in the cultures of Canada, the United States, and Nigeria, promote respect for past tradition, and for fulfilling social obligations in the present.

6. *Indulgence/restraint* describes whether the culture encourages satisfying or suppressing gratification of human drives. A culture with an indulgent orientation encourages having fun and enjoying life. Restraint-orientation cultures use strict social norms to suppress gratification. In this dimension, Australia, Canada, and the United States have cultures characterized as indulgent, whereas India and China promote restraint.

Cultural characteristics such as these influence the ways members of an organization behave toward one another, as well as their mindsets regarding various HRM practices. For instance, cultures differ strongly in their opinions about how managers should lead, how decisions should be handled, and what employees find motivating.

## HR Oops!



### Cross-Cultural Management Blunders

When Andrew Pickup left his home country of the United Kingdom to take a management position in Singapore, he did not expect to have to adjust his style of gathering performance information. As Pickup analyzed the situation, he was travelling to a former British colony where people spoke English and had grown used to British ways of doing business. He assumed that his direct style of getting and sharing information would work well. Instead, when he invited feedback, employees were startled and quiet. In Singapore, people consider it polite to be subtle. Pickup learned to take his time and develop relationships, and eventually he was better able to get the information he needed.

Australian Debbie Nicol has a job that involves training others. When she arrived in Dubai for a six-year assignment, she experienced an embarrassment in the middle of a training session. One of the attendees suddenly stood up and headed for the door, and she felt she had failed to hold his interest in the subject. She asked why he was leaving. He said he was going to pray. After that,

Nicol learned to build prayer breaks into training schedules at the appropriate times of day.

Pickup and Nicol quickly learned from their experiences. Managers and employees can succeed in cross-cultural situations if they are flexible and adaptable. Like Nicol, they may change their practices to suit an important cultural norm. Or, like Pickup, they may persevere in demonstrating their own practices when these are most beneficial. Either way, it is important to behave respectfully and with an effort at genuine understanding. Success also is more likely for a person who is aware of and transparent about their own cultural norms and values.

### Questions

1. Based on the information provided, how respectfully and effectively did Andrew Pickup handle his mistake in seeking feedback?
2. How respectfully and effectively did Debbie Nicol handle her mistake in the training schedule?

**Sources:** Culture Crossing Guide, “Singapore: Basics and Business,” <http://guide.culturecrossing.net>, accessed June 24, 2016; Andrea Murad, “Expatriate Angst: Four Expats Reveal Cultural Surprises,” *BBC*, September 4, 2013, <http://www.bbc.com>; Paula Caligiuri, “Develop Your Cultural Agility,” *T+D*, March 2013, pp. 70–72.

In Germany, managers achieve their status by demonstrating technical skills, and employees look to managers to assign tasks and resolve technical problems. In the Netherlands, managers focus on seeking agreement, exchanging views, and balancing the interests of the people affected by a decision.<sup>15</sup> Clearly, differences like these would affect how an organization selects and develops its leaders and measures their performance.

Cultures strongly influence the appropriateness of HRM practices. For example, the extent to which a culture is individualistic or collectivist will affect the success of compensation and rewards. Compensation tied to individual performance may be seen as fairer and more motivating by members of an individualistic culture; a culture favouring individualism will be more accepting of great differences in pay between the organization's highest- and lowest-paid employees. Collectivist cultures tend to have much flatter pay structures.

The success of HRM decisions related to job design, benefits, performance management, and other systems related to employee motivation also will be shaped by culture. In an interesting study comparing call centre workers in India (a collectivist culture) and the United States (an individualistic culture), researchers found

that in the United States, employee turnover depended more on person–job fit than on person–organization fit. In the United States, employees were less likely to quit if they felt that they had the right skills, resources, and personality to succeed on the job. In India, what mattered more was for employees to feel they fit in well with the organization and were well connected to the organization and the community.<sup>16</sup>

Despite cultural differences, the factors that engage workers are relatively similar across cultures. Table 10.1 provides a look at what engages employees in four countries. Finally, cultural differences can affect how people communicate and how they coordinate their activities. In collectivist cultures, people tend to value group decision making, as in the previous example. When a person raised in an individualistic culture works closely with people from a collectivist culture, communication problems and conflicts often occur. People from the collectivist culture tend to collaborate heavily and may evaluate the individualistic person as unwilling to cooperate and share information with them.

Cultural differences in communication affected the way an agricultural company embarked on employee involvement at its facilities in North America and Brazil.<sup>17</sup>

**TABLE 10.1**

### What Keeps Foreign Workers Engaged?

United States	China
Confidence they can achieve career objectives	Sense of personal accomplishment
Sense of personal accomplishment	Fair pay, given performance
Confidence organization will be successful	Comparable benefits to industry
Quality is a high priority	Confidence in senior management
Opportunity for growth and development	IT systems support business needs
Information and assistance to manage career	Opportunities for training
United Kingdom	Brazil
Sense of personal accomplishment	Sense of personal accomplishment
Confidence in senior management	Confidence in senior management
Opportunities for training	Opportunities for training
Fair pay, given performance	Fair pay, given performance
Good reputation for customer service	Good reputation for customer service
Regular feedback on performance	Comparable benefits to industry

**Sources:** Mercer HR Consulting, *Engaging Employees to Drive Global Business Success: Insight from Mercer's What's Working Research*, [www.mercer.com/referencecontent.htm?idContent=1288115](http://www.mercer.com/referencecontent.htm?idContent=1288115), retrieved September 14, 2008, quoted in Lesley Young, "Attracting, Keeping Employees Overseas," *Canadian HR Reporter*, April 7, 2008, [www.hrreporter.com](http://www.hrreporter.com), retrieved May 26, 2008.



Employee involvement requires information sharing, but in Brazil, high power distance leads employees to expect managers to make decisions, so they do not desire information that is appropriately held by managers. Involving the Brazilian employees required engaging managers directly in giving and sharing information to show that this practice was in keeping with the traditional chain of command. Also, because uncertainty avoidance is another aspect of Brazilian culture, managers explained that greater information sharing would reduce uncertainty about their work. At the same time, greater collectivism in Brazil made employees comfortable with the day-to-day communication of teamwork. The individualistic North American employees needed to be convinced on this aspect of employee involvement.

Because of these challenges, organizations must prepare both managers and employees to recognize and handle cultural differences. They may recruit managers with knowledge of other cultures or provide training, as described later in the chapter. For expatriate assignments, organizations may need to conduct an extensive selection process to identify individuals who can adapt to new environments. At the same time, it is important to be wary of stereotypes and avoid exaggerating the importance of cultural differences. Recent research that examined Hofstede's model of cultural differences found that differences among organizations within a particular culture were sometimes larger than differences from country to country.<sup>18</sup> This finding suggests that it is important for an organization to match its HR practices to its values; individuals who share those values are likely to be interested in working for the organization. Mark Chang, founder and CEO of the Malaysia-based jobs portal JobStreet.com, notes that in Asian cultures, where it often is rude to speak up for oneself and assert one's views, spotting employees' contributions takes more effort. Chang urges employees to avoid letting this become a barrier; instead, they should make the extra effort to ask questions and uncover the "quiet talents."<sup>19</sup>

## Education and Skill Levels

Countries also differ in the degree to which their labour markets include people with education and skills of value to employers. As discussed in Chapter 1, Canada suffers from a shortage of skilled workers in many occupations, and the problem is expected to increase. On the other hand, the labour markets in many countries are very attractive because they offer high skills and low wages.

Educational opportunities also vary from one country to another. In general, spending on education is greater per student in high-income countries than in economically challenged countries. Poverty, diseases such as HIV/AIDS, and political turmoil keep children away from school in some areas. At the same time, global poverty is highest in countries where the birth rates are also highest,

so the number of schoolchildren is growing. This creates both an opportunity and a challenge for these countries to foster economic development by expanding access to education, thus creating a large trained workforce. As these relatively large populations of young people attain working age, they can then contribute to building a more productive economy.<sup>20</sup>

Companies with international operations locate in countries where they can find suitable employees. The education and skill levels of a country's labour force affect how and the extent to which companies want to operate there. In countries with a lower levels of educational attainment, companies will limit their activities to low-skill, low-wage jobs. In contrast, India's large pool of well-trained technical workers is one reason that the country has become a popular location for outsourcing computer programming jobs.

## Economic System

A country's economic system as well as the government's involvement in the economy through taxes or compensation, price controls, and other activities, influences human resource management practices in a number of ways.

As with all aspects of a region's or country's life, the economic system and culture are likely to be closely tied, providing many of the incentives or disincentives for developing the value of the labour force. Socialist economic systems provide ample opportunities for educational development because the education system is free to students. At the same time, socialism may not provide economic rewards (higher pay) for increasing one's education. In capitalist systems, students bear more of the cost of their education, but employers reward those who invest in education.

The health of an economic system affects human resource management. In developed countries with great wealth, labour costs are relatively high. Such differences show up in compensation systems and in recruiting and selection decisions.

In general, socialist systems take a higher percentage of each worker's income as the worker's income increases. Capitalist systems tend to let workers keep more of their earnings. In this way, socialism redistributes wealth from high earners to the less well-off, while capitalism apparently rewards individual accomplishments. The amount of take-home pay a worker receives after taxes may thus differ from country to country. In an organization that pays two employees in two countries \$100,000 each, the employee in one country might take home more than the employee in the other country. Such differences make pay structures more complicated when they cross national boundaries, and they can affect recruiting of candidates from more than one country.

## Political–Legal System

A country's political–legal system—its government, laws, and regulations—strongly impacts human resource management. The country's laws often dictate the requirements for certain HRM practices, such as training, compensation, selection, and labour relations. For example, dissatisfaction with the European Union's principle of free movement of labour across member countries, which led to high immigration rates in the United Kingdom, was undoubtedly an important consideration by UK voters in their support of the 2016 referendum to leave the EU (Brexit). The separation process will likely result in changes in HR practices there, such as work-visa requirements for European employees who are not UK citizens, as well as disruptions in employment, recruiting, and staffing.<sup>21</sup>

As we noted in the discussion of culture, the political–legal system arises to a large degree from the culture in which it exists, so laws and regulations reflect cultural values. For example, Canada has been a leader in eliminating discrimination in the workplace. Because the value of diversity is important in Canadian culture, legal safeguards such as human rights laws discussed in Chapter 2 exist, which affect hiring and other HRM decisions. As a society, Canada also has strong beliefs regarding the fairness of pay systems. Thus, pay equity legislation (discussed in Chapter 2), provides for equal pay for work of equal value. Other laws and regulations dictate much of the process of negotiation between unions and management. All these are examples of laws and regulations that affect the practice of HRM in Canada. When Canadian companies employ workers in other countries, the workers are usually covered by the employment laws in their own countries. Employment laws in many countries offer workers less protection than Canadian legislation provides.

Similarly, laws and regulations in other countries reflect the norms of their cultures. In Western Europe, where many countries have had strong socialist parties, some laws have been aimed at protecting the rights and benefits of workers. The European Union has agreed that employers in member nations must respect certain rights of workers, including workplace health and safety; protection against discrimination based on sex, race, religion, age, disability, and sexual orientation; and labour laws set standards for work hours and other conditions of work.

An organization that expands internationally must gain expertise in the host-country's legal requirements and ways of dealing with its legal system, often leading organizations to engage an international relocation consulting firm or hire one or more host-country nationals to help in the process. Some countries have laws requiring that a certain percentage of the employees of any foreign-owned subsidiary be host-country nationals, and in the context of our discussion here, this legal challenge to an organization's HRM may hold an advantage if handled creatively.



© Paul Almasy/Corbis

Students at the University of Warsaw in Poland are provided with a government-supported education. In general, former Soviet countries tend to be generous in funding education, so they tend to have highly educated and skilled labour forces. Countries such as Canada and the United States generally leave higher education up to individual students to pay for, but the labour market rewards students who earn a college diploma or university degree.

## Workforce Planning in a Global Economy

As economic and technological change creates a global environment for organizations, workforce planning is involved in decisions about participating as an exporter or as an international, multinational, or global company. Even purely domestic companies may draw talent from the international labour market. For example, Saskatchewan health care officials and the provincial health recruitment agency actively recruited and hired hundreds of registered nurses from the Philippines to help cope with identified shortages of nurses in the province.<sup>22</sup> As organizations consider decisions about their level of international activity, HR professionals should provide information about the relevant human resource issues, such as local market pay rates and labour laws. When organizations decide to operate internationally or globally, workforce planning involves decisions about where and how many employees are needed for each international facility.

Decisions about where to locate include HR considerations such as the cost and availability of qualified workers. In addition, HR specialists need to work with other members of the organization to weigh these considerations against financial and operational requirements.



Increasingly, advances in technology are making automation a viable low-cost option for getting work done. A case in point is work handled by call centres. Many companies, including Accenture and American Express, have located call centres in the Philippines, where they found a large supply of English-speaking workers at relatively low wages. Now computer systems are being developed to automate customer phone calls. As these systems replace call centre employees in the Philippines, these workers will need to develop more advanced skills and hope that businesses will see them as good candidates for higher-value work.<sup>23</sup>

Other location decisions involve outsourcing, described in Chapter 1. Many companies have boosted efficiency by arranging to have specific functions performed by outside contractors. Many—but not all—of these arrangements involve workers outside North America in lower-wage countries.

In Chapter 3, we saw that workforce planning includes decisions to hire and lay off workers to prepare for the organization's expected needs. Compared with other countries, Canada allows employers wide latitude in reducing their workforce, giving Canadian employers the option of hiring for peak needs, then laying off employees if needs decline. Other governments put more emphasis on protecting workers' jobs. European countries, and France in particular, tend to be very strict in this regard.

## Selecting Employees in a Global Labour Market

Many companies, such as Fairmont, have headquarters in Canada as well as facilities in locations around the world. To be effective, employees at Fairmont's Nairobi property need to understand that region's business and social culture. Organizations often meet this need by hiring host-country nationals to fill most of their foreign positions. A key reason is that a host-country national can more easily understand the values and customs of the local workforce than

someone from another part of the world can. Also, training for and transporting families to international assignments is more expensive than hiring people locally. Employees may be reluctant to take an international assignment because of the difficulty of relocating internationally. Sometimes the move requires the employee's partner to quit a job, and some countries will not allow the employee's partner to seek work, even if jobs might be available.

Even so, organizations fill many key international positions with home-country or third-country employees. Sometimes a person's technical and human relations skills outweigh the advantages of hiring locally.

In other situations, Canada's local labour market simply does not offer enough qualified people to fill available jobs in Canada. At organizations where temporary workers are needed and no Canadian citizens or permanent residents are available to perform the job, it may be possible to hire foreign nationals under either Canada's *Temporary Foreign Worker Program (TFWP)*, or the *International Mobility Program (LMIA)*.<sup>25</sup>

Whether the organization is hiring employees from other countries to work domestically or selecting home-country or third-country nationals for global assignments, some basic principles of selection apply. Selection of employees for international assignments should reflect criteria that have been associated with success in working globally:

- competency in the employee's area of expertise;
- ability to communicate verbally and nonverbally in the foreign country;



Courtesy of CERC

Developed in partnership with Centennial College, the Canadian Employee Relocation Council provides a program leading to the Canadian Global Mobility Professional designation. Level III certification is a 14-week online program that follows Levels I and II and focuses on the practices and laws of other countries and how to create and administer international relocations and assignments.<sup>24</sup>



© Rob Brimson/The Image Bank/Getty Images

Qualities associated with success in international assignments are communication skills, adaptability, enjoying a challenging situation, and support from family members. What would influence you to take a global assignment?

- flexibility, tolerance of ambiguity, and sensitivity to cultural differences;
- motivation to succeed and enjoyment of challenges;
- willingness to learn about the foreign country's culture, language, and customs;
- support from family members.<sup>26</sup>

Qualities of flexibility, motivation, agreeableness, and conscientiousness are so important because of the challenges involved in entering another culture. The emotions that accompany an international assignment tend to follow steps like those in Figure 10.2<sup>27</sup> For a month or so after arriving, the foreign worker enjoys a “honeymoon” of fascination and euphoria as they enjoy the novelty of the new culture and compare its interesting similarities to or differences from the employee's own culture. Before long, the employee's mood declines as they notice more unpleasant differences and experience feelings of isolation, criticism, stereotyping, and even hostility. As the mood reaches bottom, the employee is experiencing **culture shock**, the disillusionment and discomfort that occur during the process of adjusting to a new culture and its norms, values, and perspectives. Eventually, if employees persist and continue learning about their host country's culture, they develop a greater understanding and a support network. As the employee's language skills and comfort increase, their mood should improve as well. Eventually, the employee reaches a stage of adjustment in which they accept and enjoy the host country's culture.

**culture shock**  
Disillusionment and discomfort that occur during the process of adjusting to a new culture.

Employers often have difficulty persuading candidates to accept international assignments. Not only do the employee and employee's family have to contend with culture shock, but also the employee's partner commonly loses a job when an employee makes an international move. Some organizations solve this problem with **virtual expatriates**, or employees who manage an operation abroad without locating permanently in that country.<sup>28</sup> They may take frequent trips to the foreign country, and use

technology to collaborate. An assignment as a virtual expatriate may be less inconvenient to family members and less costly to the employer. The arrangement, sometimes referred to as a *commuter assignment*, does have disadvantages. Most notably, by limiting personal contact to sporadic trips, the virtual expatriate will likely have a harder time building relationships.

**virtual expatriates**  
Employees who manage an operation abroad without permanently locating in the country.

Selection practices widely accepted in Canada may pose challenges for Canadian employers who are hiring host-country or third-country nationals. For example, background checking is widely accepted in many parts of Europe and Australia, and has recently become more accepted as a best practice in India. However, in Japan and the United States, cultural and legal differences influence how the request will be perceived and what information is accessible.<sup>29</sup>

## Selecting Expatriate Managers

The challenge of selecting expatriate managers begins with determining which individuals in the organization are most capable of handling an assignment in another country. Expatriate managers need technical competence in the area of operations, in part to help them earn the respect of the people they will be managing. Of course, many other skills are also necessary for success in any leadership role, especially one that involves working globally. Depending on the nature of the assignment and the culture where it is located, the organization should consider each candidate's skills, learning style, and approach to problem solving. Each of these should be related to achievement of the organization's goals, such as solving a particular problem, transferring knowledge to host-country employees, or developing future leaders for the organization.<sup>30</sup>

A successful expatriate manager must be sensitive to the host-country's cultural norms, flexible enough to adapt to those norms, and strong enough to survive the culture shock of living in another culture. In addition, if the manager has a family, the family members must be able

**FIGURE 10.2**

### Emotional Stages Associated with a Global Assignment



**Sources:** Debra Bruno, “Repatriation Blues: Expats Struggle with the Dark Side of Coming Home,” *Wall Street Journal*, April 15, 2015, <http://blogs.wsj.com>; Delia Flanja, “Culture Shock in Intercultural Communication,” *Studia Europaea* (October 2009), Business & Company Resource Center, <http://galenet.galegroup.com>.



## HR How-To



### Meeting the Need for Leadership Talent

Developing nations have been an important location for global and multinational companies because of their economic growth and relatively low cost of labour. From an HRM perspective, an organization with a global strategy should see the human resources in these locations as potential sources of talent. Here are some ideas for tapping the leadership potential of employees in developing countries:

- Along with expertise in business, look for candidates who are adaptable and interested in other cultures. For example, the company might administer a personality assessment to candidates for development programs.
  - Build and evaluate relationships. People with a traditional outlook may take a relatively suspicious view of inquiries from strangers and prefer making connections through recommendations and introductions. These connections can become a key means of accomplishing goals.
  - Recognize which kinds of developmental assignments are consistent with the local experience.
- For example, some employees might be used to deferring to authority, rather than volunteering to take over a work assignment.
  - Keep abreast of changing conditions in local labour markets. For example, a few years ago, ambitious employees from China were eager to work for foreign companies and gain international experience. More recently, China's growing middle class has opened up opportunities for career development through leading efforts in previously untapped local markets. Some candidates will be best suited for assignment to another country; others will have the entrepreneurial spirit needed to build up a business in a newly developing area of their own country.
  - Reconsider high-potential employees for foreign assignments at different times in their careers. For example, an executive with a Swiss pharmaceutical company in Asia wanted to postpone a transfer to another country until her daughter was a bit older.

**Sources:** T. Morrison, J. Pearce, S. Kounkel, M. Suzhaj, and I. Gantcheva, "Emerging Market Talent Strategies," *Deloitte University Press*, <http://dupress.com>, accessed June 26, 2016; Neal Goodman, "Training Chinese Leaders to Go Global," *Training*, November/December 2015, pp. 66–67; Winter Nie, "HR Challenges: Why One-Size-Fits-All Doesn't Work in China," *Forbes*, June 1, 2015, <http://www.forbes.com>; Archanta Mehta, "Made in China: A Chinese Approach to Talent Management," *HRCI Certified* (HR Certification Institute), vol. 1, 2015, pp. 34–37; Alex Eymieu, "The Ins and Outs of Hiring Local Senior Executives," *China Business Review*, January 1, 2012, <http://www.chinabusinessreview.com>.

to adapt to a new culture. Adaptation requires three kinds of skills:<sup>31</sup>

1. ability to maintain a positive self-image and feeling of well-being
2. ability to foster relationships with the host-country nationals
3. ability to perceive and evaluate the host-country's environment accurately

In a study that drew on the experience of people holding international assignments, expatriates told researchers that the most important qualities for an expatriate manager are in order of importance: family situation, flexibility and adaptability, job knowledge and motivation, relational skills, and openness to other cultures.<sup>32</sup>

To assess candidates' ability to adapt to a new environment, interviews should address topics such as those listed in Table 10.2. The interviewer should be certain to give candidates a clear and complete preview of the

assignment and the host-country culture. This helps the candidate evaluate the assignment and consider it in terms of their family situation, so the employer does not violate the employee's privacy.<sup>33</sup>

## Training and Developing a Global Workforce

In an organization whose employees come from more than one country, some special challenges arise with regard to training, learning, and development:

1. Training and development programs should be effective for all participating employees, regardless of their country of origin;
2. When organizations hire employees to work in a foreign country or transfer them to another country, the employer needs to provide training in how to handle the challenges of working in the foreign country.

**TABLE 10.2****Selected Topics for Assessing Candidates for International Assignments****Motivation**

- What are the candidate's reasons and degree of interest in wanting an international assignment?
- Does the candidate have a realistic understanding of what is required in working and living internationally?
- What is the partner's/spouse's mindset toward an international assignment?

**Health**

- Are there any health issues with the candidate or family members that might impact the success of the international assignment?

**Language Ability**

- Does the candidate have the potential to learn a new language?
- Does the candidate's partner/spouse have the ability to learn a new language?

**Resourcefulness and Initiative**

- Is the candidate able to meet objectives and produce positive results with available employees and facilities regardless of challenges that might arise in an international business environment?
- Can the candidate operate without a clear definition of responsibility and authority?
- Will the candidate be able to explain the goals of the company and its mission to local managers and workers?
- Does the candidate possess sufficient self-discipline and self-confidence to handle complex problems?

**Adaptability**

- Is the candidate collaborative and open to the opinions of others?
- How does the candidate react to new situations? Does the candidate demonstrate efforts to understand and appreciate cultural differences?
- How does the candidate react to feedback?
- Will the candidate be able to make and develop contacts with peers in another country?
- Does the candidate demonstrate patience when dealing with problems? Is the candidate resilient and able to move forward after setbacks?

**Career Planning**

- Does the candidate consider the assignment more than a temporary international trip?
- Is the international assignment consistent with the candidate's career development plans?
- What is the candidate's overall attitude toward the company?
- Is there any history or indication of interpersonal problems with this candidate?

**Financial**

- Are there any current financial and/or legal considerations that might affect the assignment?
- Will undue financial pressures be put upon the candidate and/or family as a result of the international assignment?

**Sources:** P. Caligiuri, *Cultural Agility: Building a Pipeline of Successful Global Professionals* (San Francisco: Jossey-Bass, 2012); P. Caligiuri, D. Lepak, and J. Bonache, *Managing the Global Workforce* (West Sussex, United Kingdom: John Wiley & Sons, 2010); M. Shaffer, D. Harrison, H. Gregersen, S. Black, and L. Ferzandi, "You Can Take It with You: Individual Differences and Expatriate Effectiveness," *Journal of Applied Psychology* 91 (2006): 109–125; P. Caligiuri, "Developing Global Leaders," *Human Resource Management Review* 16 (2006): 219–228; P. Caligiuri, M. Hyland, A. Joshi, and A. Bross, "Testing a Theoretical Model for Examining the Relationship between Family Adjustment and Expatriates' Work Adjustment," *Journal of Applied Psychology* 83(1998): 598–614; David M. Noer, *Multinational People Management: A Guide for Organizations and Employees* (Arlington, VA: Bureau of National Affairs, 1975).



## Training Programs for an International Workforce

Developers of effective training programs for an international workforce must ask certain questions.<sup>34</sup> The first is to establish the objectives for the training and its content. Decisions about the training should support those objectives. The developers should next ask what training techniques, strategies, and media to use. Some will be more effective than others, depending on the learners' language and culture, as well as the content of the training. For example, in preparation for training, Canadian employees might expect to discuss and ask questions about the training content, whereas employees from other cultures might consider this level of participation to be disrespectful, so for them some additional support might be called for. Language differences will require translations and perhaps an interpreter at training activities. Next, the developers should identify any other interventions and conditions that must be in place for the training to meet its objectives. For example, training is more likely to meet its objectives if it is linked to performance management and has the full support of management. Finally, the developers of a training program should identify who in the organization should be involved in reviewing and approving the training program.

The plan for the training program must consider global differences among participants. For example, economic and educational differences might influence employees' ability to access mobile or online training. Cultural differences may influence whether participants will consider it appropriate to ask questions and whether the facilitator is expected to spend time becoming acquainted with employees or to get down to business immediately. Table 10.3 provides examples of how cultural characteristics can affect training design.

**TABLE 10.3**

### Effects of Culture on Training Design

Cultural Dimension	Impact on Training
<b>Individualism</b>	Culture high in individualism expects participation in exercises and questioning to be determined by status in the company or culture.
<b>Uncertainty avoidance</b>	Culture high in uncertainty avoidance expects formal instructional environments. Less tolerance for more casual facilitative style.
<b>Masculinity</b>	Culture low in masculinity values relationships with fellow trainees. Female trainers less likely to be resisted in low-masculinity cultures.
<b>Power distance</b>	Culture high in power distance expects trainer to be an expert. Trainer expected to be an authority and in careful control of session.
<b>Time orientation</b>	Culture with a long-term orientation will have trainees who are likely to accept development plans and assignments.

**Source:** Based on B. Filipczak, "Think Locally, Act Globally," *Training*, January 1997, pp. 41-48.

## Training and Development for Global Relocation

When an organization selects an employee for a position in another country, it must prepare the employee for the assignment. This kind of training is called **cross-cultural preparation**, preparing employees to work across national and cultural boundaries, and it often includes family members who will accompany the employee on the assignment. The training is necessary for all three phases of an international assignment:

**cross-cultural preparation** Training to prepare employees and their family members for an assignment in a foreign country.

1. Preparation for *departure*—language instruction and an orientation to the foreign country's culture.
2. The *assignment* itself—some combination of a formal program and mentoring relationship to provide ongoing further information about the foreign country's culture.
3. Preparation for the *return* home—providing information about the employee's community and home-country workplace (from company newsletters, local newspapers, and so on).

The chapter-ending HRM Social case addresses how social media can support cross-cultural preparation during an assignment.

Methods for providing this training may range from lectures for employees and their families to visits to culturally diverse communities.<sup>35</sup> Employees and their families may also spend time visiting a local family from the country where they will be working. In many organizations, cross-cultural training is mandatory. In the later section

on managing expatriates, we provide more detail about such preparation.

Cross-cultural preparation is important. Research links it to lower turnover among expatriates, greater willingness to accept another international assignment, and greater perceived contribution to business outcomes.<sup>36</sup>

Canadian-based companies sometimes need to be reminded that employees who come to Canada from another country need cross-cultural preparation as much as Canadian employees sent on global assignments.<sup>37</sup> In spite of the many benefits of living in Canada, relocation can be challenging. As with expatriates, organizations can prepare employees from other countries by providing information about getting the resources they need to live and work safely and comfortably in their new surroundings. For example, when Maple Leaf Foods hired 40 new foreign workers from El Salvador and Honduras for its operations in Brandon, Manitoba, employees' needs were actively considered to help make an effective transition to Canada. Plant Manager Morgan Curran-Blaney described the process to help the new recruits. "We have . . . basic living training, so living in Canada, this is what you can expect. We help them set up bank accounts here in town; we give them sort of a welcome package, the necessities that you would need to start out in Canada." Maple Leaf also arranged housing, including furnishing the houses and apartments.<sup>38</sup>

At global organizations, international assignments are a part of many career paths. The organization benefits most if it applies the principles of employee development in deciding which employees should be offered jobs in other countries. Career development helps employees make the transitions to and from their assignments and helps the organization apply the knowledge the employees obtain from these assignments.

## Performance Management across National Boundaries

The general principles of performance management may apply in most countries, but the specific methods that work in one country may not work well in another. Therefore, organizations have to consider legal requirements, local business practices, and national cultures when they establish performance management methods in other countries. Differences may include which behaviours are rated, how, and the extent to which performance is measured; who performs the rating; and how feedback is provided.<sup>39</sup>

For example, National Rental Car uses a behaviourally based rating scale for customer service representatives. To measure the extent to which customer service representatives' behaviours contribute to the company's goal of improving customer service, the scale measures behaviours such as smiling, making eye contact, greeting customers, and solving customer problems. Depending on the country,

different behaviours may be appropriate. In Japan, culturally defined standards for polite behaviour include the angle of bowing as well as proper back alignment and eye contact. In Ghana and many other African nations, appropriate measures include behaviours that reflect loyalty and repaying of obligations as well as behaviours related to following regulations and procedures.

The extent to which managers measure performance may also vary from one country to another. In rapidly changing regions, such as Southeast Asia, the organization may have to update its performance plans more often than once a year.

Feedback is another area in which differences can occur. Employees around the world appreciate positive feedback, but Canadian employees are much more used to receiving direct feedback than are employees in many other countries. In Mexico, managers are expected to provide positive feedback before focusing the discussion on behaviours the employee needs to improve.<sup>40</sup> At the Thai office of Singapore Airlines managers resisted giving negative feedback to employees because they feared this would cause them to have bad karma, contributing to their reincarnation at a lower level in their next life.<sup>41</sup> The airline therefore allowed the managers to adapt their feedback process to fit local cultures.

## Managing Expatriates' Performance

Performance management of expatriates requires clear goals for the assignment and frequent evaluation of whether the expatriate employee is on track to meet those goals. Communication technologies and social media platforms provide a variety of ways for expats' managers to keep in touch with these employees to discuss and diagnose issues before they can interfere with performance. In addition, before employees leave for a global assignment, HR should work with managers to develop criteria for measuring the success of the assignment.<sup>42</sup> Measures such as productivity should take into account any local factors that could make expected performance different in the host country than in the company's home country. For example, a country's labour laws or the reliability of the electrical supply could affect the facility's output and efficiency.

## Compensating and Rewarding an International Workforce

Chapter 8 explained that *total rewards* includes decisions about pay structure, incentive pay, employee benefits and services, and even development and career opportunities and other characteristics of the work environment such as



## Did You KNOW?



### The 10 Most Expensive Cities Are Located on Three Continents

Expatriates spend more for housing, transportation, food, clothing, and other living expenses in Hong Kong than in any other major city, according to a survey by Mercer Human Capital Consulting. Hong Kong is notable for its very high housing prices and rental rates. Three other nearby cities, Singapore, Seoul, and Tokyo, join Hong Kong in

the top five, posing challenges for companies that want to do business in the relatively fast-growing economies in Southeast Asia. The remaining top-five city, Zurich, is in Europe.

The most expensive Canadian cities were Vancouver and Toronto (tied for 109th spot).



**Sources:** Mercer, "Mercer's 24th Annual Cost of Living Survey finds Asian, European, and African cities most expensive locations for employees working abroad," Mercer Newsroom, June 26, 2018, [www.mercer.ca](http://www.mercer.ca). and Enda Curran, "These Are the World's Most Expensive Cities for Expats," *Bloomberg*, June 25, 2018. <https://www.bloomberg.com>.

work-life balance. All these decisions become more complex when an organization has an international workforce. Johnson & Johnson meets the challenge by creating a global compensation strategy for its pharmaceutical, consumer, and medical-device businesses with employees in 70 countries. J&J developed the strategy at its U.S. headquarters because compensation expertise at the company varied from one region to another. However, it had representatives from each region serve on the project teams so the company would be familiar with local issues, such as the need for frequent salary reviews in Venezuela and Argentina, where high inflation rates take a toll on buying power.<sup>43</sup>

## Pay Structure

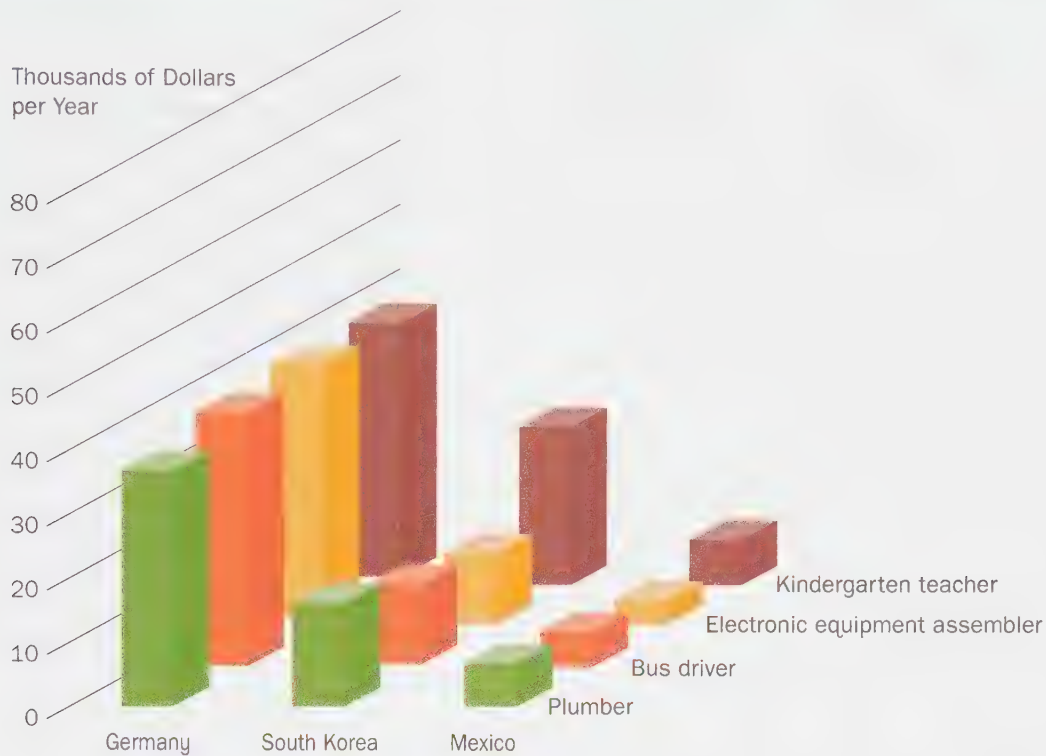
As Figure 10.3 shows, market pay structures can differ substantially across countries in terms of both pay level and the relative worth of jobs. For example, compared with

the labour market in Germany, the market in Mexico provides much lower pay levels overall. In Germany, the pay differences between jobs are less dramatic than in South Korea; for example, the relative pay of teachers is much higher than in South Korea. One reason for big pay differences in some countries is a shortage of talent in local labour markets. In Brazil, for example, companies have trouble finding enough managers with technical expertise because big construction projects and oil drilling tend to produce heavy demand for those positions. In addition, the Brazilian economy has drawn many multinationals to locate facilities in Brazil, further increasing the demand for managers there. Finally, Brazilian managers tend to be loyal employees, so recruiters need to offer especially tempting compensation packages to lure them away.<sup>44</sup>

Differences such as these create a dilemma for global companies: Should pay levels and differences reflect what workers are used to in their own countries? Or should

FIGURE 10.3

## Earnings in Selected Occupations in Three Countries



**Source:** Wage and hour data from International Labour Organization, LABORSTA Internet, <http://laborsta.ilo.org>, accessed June 20, 2016.

they reflect the earnings of colleagues in the country of the facility, or earnings at the company headquarters? For example, should a German engineer posted to Mumbai be paid according to the standard in Germany or the standard in Mumbai? If the standard is Germany, the engineers in Mumbai will likely see the German engineer's pay as unfair. If the standard is Mumbai, the company will likely find it impossible to persuade a German engineer to take an assignment in Mumbai. Dilemmas such as these make a global compensation strategy important as a way to show employees that the pay structure is designed to be fair and related to the value that employees bring to the organization.

These decisions affect a company's costs and ability to compete. The average hourly labour costs in industrialized countries such as Canada, the United States, Germany, and Japan are far higher than these costs in newly industrialized countries such as Mexico, Brazil, and Taiwan.<sup>45</sup> As a result, we often hear that North American labour costs are too high to compete effectively unless the companies shift operations to low-cost foreign subsidiaries. That conclusion oversimplifies the situation for many companies. Merely comparing wages ignores differences in education,

skills, and productivity.<sup>46</sup> If an organization gets more or higher-quality output from a higher-wage workforce, the higher wages may be worth the cost. Besides this, if the organization has many positions requiring highly skilled workers, it may need to operate in (or with people from) a country with a strong educational system, regardless of labour costs. In addition, labour costs may be outweighed by other factors, such as transportation costs or access to resources or customers. Finally, increasing automation of processes is reducing the demand for labour and the significance of differences in labour costs.

Cultural and legal differences also can affect pay structure. Some countries, including Colombia, Greece, and Malaysia, require that companies provide salary increases to employees earning minimum wage. In Venezuela, employers must provide employees with a meal allowance. In Mexico and Puerto Rico, employers must pay holiday bonuses. Organizations with a global pay strategy must adjust the strategy to account for local requirements and determine how pay decisions for optional practices will affect their competitive standing in local labour markets.<sup>47</sup>

Most organizations use a *balance sheet approach* to determine the total amount of the package. This approach



adjusts the employee's compensation so that it gives the employee the same standard of living as in the home country plus extra pay for any hardships of locating globally. As is shown in Figure 10.4, the balance sheet approach begins by determining the purchasing power of compensation for the same type of job in the employee's own country—that is, how much a person can buy, after taxes, in terms of housing, goods and services, and a reserve for savings. Next, this amount is compared with the cost (in dollars, for a Canadian company) of these same expenses in the foreign country.

In Figure 10.4, the greater size of the second column means the costs for a similar standard of living in the foreign country are much higher in every category except the reserve amount. This situation would be likely in one of the cities identified in Did You Know? For the expatriate in this situation, the employer would pay the additional costs, as shown by the third column. Finally, the expatriate receives additional purchasing power from premiums and incentives. Because of these added incentives, the expatriate's purchasing power is more than what the employee could buy at home with the salary for an equivalent job. (Compare the fourth column with the first.) These compensation practices can make expatriate assignments very expensive. Not surprisingly, then, a survey of human resources practitioners responsible for handling

international moves of employees found that cost reduction is a priority at their companies. The most common solution has been to reduce global assignments.<sup>48</sup>

After setting the total pay, the organization divides this amount into the four components of a *total compensation* package:

1. **Base salary**—determining the base salary is complex because different countries use different currencies (dollars, yen, euros, and so on). The exchange rate—the rate at which one currency may be exchanged for another—constantly shifts in response to a host of economic forces, so the real value of a salary in terms of dollars is constantly changing. Also, as discussed earlier, the base salary may be comparable to the pay of other employees in the home country or comparable to other employees at the international subsidiary. Because many organizations pay a salary premium as an incentive to accept an international assignment, expatriates' salaries are often higher than pay for staying in the home country.
2. **Tax equalization allowance**—"Tax equalization holds that the worker neither gains nor loses with regards to tax liability as a result of an international assignment."<sup>49</sup> Countries have different systems for taxing income, and in some countries, tax rates are

FIGURE 10.4

### The Balance Sheet for Determining Expatriate Compensation



higher than in Canada. Usually, the employer of an expatriate withholds the amount of tax to be paid in the home country, then pays all of the taxes due in the country where the expatriate is working.

3. **Incentives, benefits, and services**—Most of these issues have to do with whether an employee will receive similar incentives and benefits during the international assignment. For example, if an expatriate has been contributing to a pension plan in Canada, does this person have a new pension plan in the foreign country? Or can the expatriate continue to contribute to the Canadian pension plan? Similarly, health benefits may involve receiving care at certain health facilities. While the person is assigned globally, does the same health plan cover services received in another country? In one case, flying an employee back to Canada for certain procedures actually would have cost less than having the procedures done in the country where the person was working. But the company's health plans did not permit this alternative. Incentive pay and employee benefits and services are discussed in greater detail under the next headings.
4. **Allowance to make a global assignment more attractive**—Cost-of-living allowances make up the differences in expenses for day-to-day needs. Housing allowances ensure the expatriate can maintain the same standard of living as in Canada. Education allowances reimburse expatriates who pay tuition for their children to attend private schools. Relocation allowances cover the expenses of making the move to the foreign country, including transportation, shipping or storage of possessions, and expenses for temporary housing until the employee can rent or purchase a home.

## Incentive Pay

Besides setting a pay structure, the organization must make decisions with regard to incentive pay, such as bonuses and stock options. Although stock options became a common form of incentive pay in North America during the 1990s, European businesses did not begin to embrace this type of compensation until the end of that decade. However, Canada and Europe differ in the way they award stock options. European companies usually link the options to specific performance goals, such as the increase in a company's share price compared with that of its competitors.

## Employee Benefits and Services

As in Canada, total rewards packages in other countries include benefits and services. Decisions about benefits and services must take into account the laws of each country involved, as well as employees' expectations and values in those countries. Some countries require lengthy paid



Photo by Patrick Robert/Corbis via Getty Images

Taking an international assignment, especially in a volatile or potentially dangerous climate, requires the challenge of adjusting to life in a new country, so many companies pay employees higher salaries to compensate for this hardship.

parental leave, and some countries, in addition to Canada, have nationalized health care systems, which would affect the value of private health insurance in a rewards package. An employer may offer expatriates additional benefits to address the problem of uprooting a partner when assigning an employee overseas. Availability of partner relocation assistance is a differentiator for many organizations in attracting employees to global assignments. For example, some organizations provide the “trailing partner” with educational and career assistance. Pension plans are more widespread in parts of Western Europe than in Canada, the United States, or Japan. Over 90 percent of workers in Switzerland have pension plans, as do all workers in France. Among workers with pension plans, Canadian workers are significantly less likely to have defined benefit plans than workers in Japan or Germany.

Paid vacation, also discussed in Chapter 8, tends to be more generous in Western Europe than in North America. Figure 10.5 compares the number of hours the average employee works in various countries. Of these countries, workers in Mexico, Greece, the United States, and Japan put in more hours than Canadian workers. In the other countries, the norm is to work fewer hours than a Canadian worker over the course of a year.

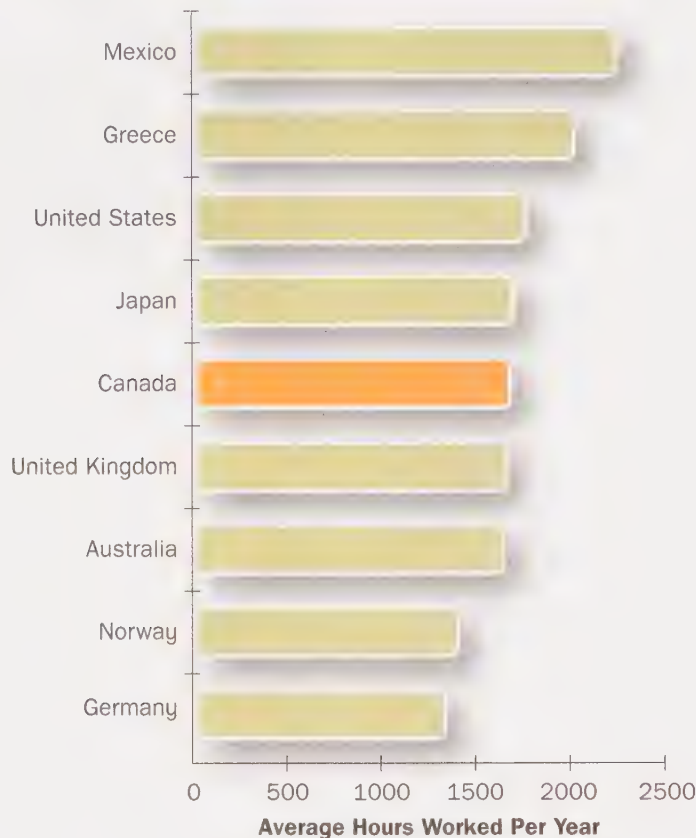
## International Labour Relations

Companies that operate across national boundaries will increasingly need to work with unions in more than one country. Organizations establish policies and goals for labour relations, overseeing labour agreements, and monitoring labour performance (e.g., output and productivity).<sup>50</sup> The day-to-day decisions about labour relations are usually handled by each foreign subsidiary. The reason is that labour relations on an international scale involve



FIGURE 10.5

## Average Hours Worked in Selected Countries (2017)



**Source:** Organisation for Economic Co-operation and Development, "Average annual hours actually worked per worker," OECD.Stat, <https://stats.oecd.org/index.aspx?DataSetCode=ANHRSh> <http://stats.oecd.org>, accessed July 20, 2018.

differences in laws, attitudes, and economic systems, as well as differences in negotiation styles.

At least in comparison with European organizations, North American organizations exert more centralized control over labour relations in the various countries where they operate.<sup>51</sup> Management therefore must recognize differences in how various countries understand and regulate labour relations. For example, in Canada, collective bargaining usually involves negotiations between a union local and an organization's management, but in Sweden and Germany collective bargaining generally involves negotiations between an employer's organization and a union representing an entire industry's employees.<sup>52</sup>

China's only legal labour union—and the world's largest union—is the All-China Federation of Trade Unions (ACFTU), which is controlled by the government. The Chinese government limits the workers' rights to collective bargaining and striking, and it appoints leaders of the ACFTU. At some companies in recent years, workers have begun to conduct strikes and protests seeking greater rights.<sup>53</sup>

Legal differences range from who may form a union to how much latitude an organization is allowed in laying off workers. In some situations, governments get involved to protect workers. After an eight-storey factory collapsed in Dhaka, Bangladesh, killing more than 1,100 people, the government of Bangladesh eased rules that had made it difficult for the country's workers to unionize. Until then, workers had to obtain permission from factory owners before forming unions.<sup>54</sup>

International labour relations must also take into account that negotiations between labour and management take place in a different social context, not just different economic and legal contexts. Cultural differences that affect other interactions come into play in labour negotiations as well. Negotiators will approach the process differently depending on whether the culture views the process as primarily cooperative or competitive and whether it is local practice to negotiate a deal by starting with the specifics or agreeing on overall principles.<sup>55</sup> Working with host-country nationals can help organizations navigate such differences in negotiation style.

## Preparing and Managing Expatriates

At some point, most international and global organizations assign employees to foreign posts. These assignments give rise to significant human resource requirements, from selecting employees for these assignments to preparing them, compensating them, helping them adjust and remain safe, providing support, and preparing for return home. The same kinds of HRM principles that apply to domestic positions can help organizations avoid mistakes in managing expatriates: planning and goal setting, selection aimed at achieving the HR goals, and performance management that includes evaluation of whether the global assignment delivered value relative to the costs involved.<sup>56</sup>

### Global Relocation Success Factors

Respondents to the Global Mobility Policy and Practice survey listed “inability of the family to adjust” (61 percent) as the number-two reason assignments fail. It is eclipsed only by “changing business conditions” (63 percent) as a reason for assignment failure. The importance of family is reinforced by the fact that 76 percent of respondents rated “family or personal circumstances” as the number-one reason employees turn down global assignments.<sup>57</sup> Providing “trailing partner” career transition services may make the difference whether or not an international assignment will be accepted. Personality may also be important. Research has found successful completion of international assignments to be most likely among employees who are extroverted (outgoing), agreeable (cooperative and tolerant), and conscientious (dependable and achievement oriented).<sup>58</sup> Researchers have concluded that organizational support is associated with the necessary cross-cultural adjustment required for expatriate effectiveness.<sup>59</sup> And because expatriate success depends so much on the entire family’s adjustment, the employee’s partner should be included in the preparation activities. Employees selected for expatriate assignments already have job-related skills, so preparation for expatriate assignments often focuses on cross-cultural training—that is, training in what to expect from the host-country’s culture. The general purpose of cross-cultural training is to create an appreciation of the host-country’s culture so expatriates can behave appropriately.<sup>60</sup> Paradoxically, this requires developing a greater awareness of one’s own culture, so that the expatriate can recognize differences and similarities between the cultures and, perhaps, home-culture biases.

Reducing culture shock was also discussed previously in this chapter; however, on a more specific level, cross-cultural training for global assignments should additionally include the details of how to behave in business settings in another country—the ways people behave in meetings,

how employees expect managers to treat them, and so on. As an example, Germans value promptness for meetings to a much greater extent than do Latin Americans—and so on. How should one behave when first meeting one’s business counterparts in another culture? The “outgoing” personality style so valued in North America may seem quite rude in other parts of the world.<sup>61</sup> Ideally, the company also provides training for an expatriate’s team in the host country, so that all colleagues can learn about one another’s cultural practices and values.<sup>62</sup>

Employees preparing for an international assignment also need information about practical matters such as housing, schools, recreation, shopping, and health care facilities in the country where they will be living. This is a crucial part of the preparation. Communication in another country often requires a determined attempt to learn a new language. Some employers try to select employees who speak the language of the host country, and a few provide language training. Most companies assume that employees in the host country will be able to speak the host-country’s language. Even if this is true, host-country nationals are not necessarily fluent in the home-country’s language, so language barriers often remain. This is true even when employees move to a country that nominally speaks the same language. For example, a Canadian employee working in England might be surprised to discover that when a project suddenly goes awry, it has “hit the buffers,” while if it is proceeding smoothly, it is “on cam.” And a client who says, “Give me a bell,” isn’t requesting an unusual sort of gift but rather a phone call.<sup>63</sup>

Along with cross-cultural training, preparation of the expatriate should include career development activities. Before leaving for a global assignment, expatriates should discuss with their managers how the assignment fits into their career plans and what types of positions they can expect upon their return. This prepares the expatriate to develop valuable skills during the assignment and eases the return home. Coaching during the assignment also can improve the likelihood that the expatriate will be successful.

The use of a well-written *international assignment letter* is a helpful means to clarify the rights and responsibilities of both the employer and employee for a relocation and subsequent return. Table 10.4 describes some considerations about what to include in an international assignment letter.

When the employee leaves for the assignment, the preparation process should continue. Expatriate colleagues, coaches, and mentors can help the employee learn to navigate challenges as they arise. For example, workers in a new culture sometimes experience internal conflict when the culture where they are working expects them to behave in a way that conflicts with values they learned from their own culture. For example, an Italian manager had difficulty motivating the workforce in India because the employees were used to authoritarian leadership, and



**TABLE 10.4****What to Include in an International Assignment Letter**

<b>Assignment</b>	<ul style="list-style-type: none"> <li>• Location</li> <li>• Duration of assignment</li> </ul>
<b>Remuneration</b>	<ul style="list-style-type: none"> <li>• Base salary</li> <li>• Incentives and benefits</li> <li>• Pension plans</li> <li>• Currency of payment</li> </ul>
<b>Tax Issues</b>	<ul style="list-style-type: none"> <li>• Tax equalization</li> <li>• Tax advice</li> <li>• Tax reporting</li> </ul>
<b>Host Country</b>	<ul style="list-style-type: none"> <li>• Housing</li> </ul>
<b>Relocation Program</b>	<ul style="list-style-type: none"> <li>• Home and automobile sale</li> <li>• Family allowances (if family doesn't relocate)</li> <li>• House hunting</li> <li>• Moving</li> <li>• Schooling</li> <li>• Elder care</li> <li>• Language training</li> <li>• Cultural acclimatization programs</li> </ul>
<b>Vacation and Home Leave</b>	<ul style="list-style-type: none"> <li>• Number of trips</li> <li>• Emergency and compassionate travel provisions</li> </ul>
<b>Repatriation</b>	<ul style="list-style-type: none"> <li>• Timing (e.g., to coincide with family needs such as school terms)</li> <li>• Employment opportunities upon the employee's return</li> <li>• Assignment debriefing</li> <li>• Financial counselling</li> <li>• Dealing with dismissal or resignation</li> </ul>

**Sources:** Joyce Head, "How Paper Can Protect International Relocations," *Canadian HR Reporter*, March 13, 2006, p. 14; and Margaret Sim and Liam Dixon, "Unraveling Comp, Benefits for Expatriates," *Canadian HR Reporter*, December 3, 2007, p. 23.

the manager felt as if that style was harsh and disempowering. By talking over the problem with experienced expatriates, the manager came to understand why the situation was so awkward and frustrating for him. He identified specific ways in which he could be more direct and calm, so that his employees in India would better understand what was expected of them. Practising a new style of leadership became more satisfying as the manager realized that the employees valued his style and that he was becoming a more capable cross-cultural leader.<sup>64</sup>

## Helping Expatriates Return and Minimizing Turnover

As the expatriate's assignment nears its end, the human resource department faces a final challenge: helping the expatriate make the transition back to their home country. The process of preparing expatriates to return home from a foreign assignment is called **repatriation**. According to a study by a partnership between PricewaterhouseCoopers and Cranfield University School of Management, more than 25 percent of repatriated employees leave the company within one year after an international assignment ends.<sup>65</sup> Repatriation issues should be discussed even before the candidate accepts an international assignment. Reentry is not as simple as it might sound. Culture shock takes place in reverse. The experience has changed the expatriate, and the company's and expatriate's home culture may have changed as well. Also, because of differences in economies and compensation levels, a returning expatriate may experience a decline in living standards. The standard of living for an expatriate in many countries includes household help, a car and driver, private schools, and club memberships.

Companies are increasingly making efforts to help expatriates through this transition and take steps to ensure expatriates stay with the company after their return. Two activities help to encourage retention: *communication* and *validation*.<sup>66</sup> Communication refers to the expatriate receiving information and recognizing changes while abroad. The more the organization keeps in contact with the expatriate, the more effective and satisfied the person is likely to be upon return. The expatriate plays a role in this process as well. Expatriates should work at maintaining important contacts in the company and industry. Communication related to performance and career development before and during the international assignment also should help the employee return to a choice of positions that are challenging and interesting. Validation means giving the expatriate recognition for the international service when they return home. Expatriates who receive family repatriation support and recognition from colleagues and top managers for their international service and future contribution have fewer troubles with reentry than those whose contributions are disregarded. Validation should also include planning for how the returning employee will contribute to the organization. What skills will they

bring back? What position will they fill? The new skills may be much more than knowledge of a particular culture. For example, the person may have learned how to lead or negotiate with a diverse group of people.<sup>67</sup>

Furthermore, for the employees and their organizations to get maximum value from

**repatriation** The process of preparing expatriates to return home from a foreign assignment.

the global assignment, returning employees should have opportunities to share what they learned. The company might set up meetings for returning employees and their colleagues; make returning expats available for panel discussions; invite them to blog about their experience during and after the assignment; and include data about global assignments in online databases used for promotions, employee development, and knowledge sharing.<sup>68</sup>

## Thinking ETHICALLY



### How Can Employers Support LGBTQ2+ Employees in Expat Assignments?

When LGBTQ2+ employees are offered an assignment in another country, they face some considerations about how their sexual orientation or gender identity will be treated in the new country. While some countries have inclusive attitudes, dozens frown on or even criminalize same-sex relationships and expressions of gender identity. An assignment in one of those countries could be uncomfortable at best and dangerous at worst. In countries that outlaw same-sex relationships, punishments include prison and, in a few cases, the death penalty. Even where the laws aren't enforced, they contribute to a climate in which people don't report violence against or blackmail of LGBTQ2+ persons. With this in mind, LGBTQ2+ employees sometimes turn down international assignments in order to protect themselves and their families.

LGBTQ2+ employees who accept these assignments can expect some extra surprises or challenges. A challenge—easier for single and childless employees perhaps—is a choice to hide one's sexual orientation or gender identity. While working in Nigeria, an employee of a British company asked her British HR department not to share with her local colleagues that her next of kin was her wife, because she expected problems could result. On the positive side, some employees find warm and welcoming communities that help them navigate the new culture where they are posted. And some find that being an expat already marks them as “different” in the eyes of

locals, so sexual orientation or gender identity doesn't matter much.

Given that LGBTQ2+ employees may be treated differently in international assignments, employers have to determine what the organization's role will be in offering the assignments. For example, they might offer LGBTQ2+ employees global assignments only in countries where they believe these employees can travel and live safely. Or they might ensure that their cross-cultural training touches on these issues, regardless of any assumptions about employees' sexual orientation or gender identity, so that all employees can make informed decisions. Some companies with a commitment to diversity and inclusion go further and try to influence change in the countries where they operate—for example, by pointing out that anti-LGBTQ2+ laws make the countries less attractive to multinational businesses.

### Questions

1. How would you apply the principle of justice and fairness to employers' decisions about offering international assignments to LGBTQ2+ employees?
2. What would be the most ethical way for employers to address the safety risks of asking a LGBTQ2+ employee to work in a country such as Dubai, Russia, or Uganda where laws may create difficult living and working conditions?

**Sources:** Emma Jacobs, “LGBT employees face hurdles at home and school,” *The Financial Times*, May 7, 2018, <https://www.ft.com>; Ronald Alsop, “Is This the Most Dangerous Expat Assignment?” *BBC*, March 31, 2016, <http://www.bbc.com>; Debra Bruno, “When the Closet Travels with You: For Gay Expats, Life Abroad Brings Challenges,” *Wall Street Journal*, October 11, 2015, <http://blogs.wsj.com>; Lisa Johnson, “Integrating LGBT Expats,” *Talent Management*, October 8, 2015, <http://www.talentmgt.com>; Jamie Waddell, “Same-Sex Expat Experiences,” *ExpatriateBriefing.com*, May 9, 2014, <http://www.expatriatebriefing.com>.



## SUMMARY

**LO1 Summarize how the growth in global business activity affects human resource management.**

More and more companies are entering global markets by exporting to and operating in other countries. Organizations therefore need employees who understand customers, suppliers, and local laws in other countries and are able to adapt to local situations. Organizations may operate on the scale of an exporter or an international, global, or multinational organization. A global organization needs a transnational HRM system, which makes decisions from a global perspective, includes employees from many countries, and is based on ideas contributed by people representing a variety of cultures.

**LO2 Identify the factors that most strongly influence HRM in global markets.**

By far the most important influence is the culture of each market—its set of shared assumptions about how the world works and what ideals are worth striving for. Countries also differ in the degree to which their labour markets include people with education and skills of value to employers. Another influence on international HRM is the foreign country's political–legal system—its government, laws, and regulations. Finally, a country's economic system, as well as the government's involvement in the country's economy, is a strong factor determining HRM practices.

**LO3 Discuss how international operations impact human resource practices including workforce planning, selection, training and development, performance management, total rewards, and labour relations.**

When organizations decide to operate internationally or globally, workforce planning involves decisions about where and how many employees are needed for each international facility. Organizations prepare the employees (and often their families) through training. The general principles of performance management may apply in most countries, but the specific methods that work in one country may not work well in another. Pay structures can differ substantially among countries, and labour relations involve differences in laws, attitudes, economic systems, and negotiation styles.

**LO4 Explain how employers manage and prepare employees for international assignments and for their return home.**

When an organization has selected an employee for an international assignment, extensive preparations are required before departure. Preparation of the expatriate should include cross-cultural training and career development activities to help the individual acquire valuable career skills during the international assignment and at the end of the assignment to handle repatriation successfully. Communication of changes at home and validation of a job well done abroad help the expatriate through the repatriation process.

## CRITICAL THINKING QUESTIONS

1. Identify the home country, host country(ies), and third country(ies) in the following example: A global soft-drink company called Cold Cola has headquarters in Halifax, Nova Scotia. It operates production facilities in the United States, and in Jakarta, Indonesia. The company has assigned a manager from Moncton, New Brunswick, to head the U.S. facility and a manager from Hong Kong to manage the Jakarta facility.
2. Think of the different levels of global participation. What companies that you are familiar with exhibit the different levels of participation?
3. What are some HRM challenges that arise when a Canadian company expands from domestic markets by exporting? When it changes from simply exporting to operating as an international company? When an international company becomes a global company?
4. In recent years, many North American companies have invested in Russia and sent Canadian managers there in an attempt to transplant North American–style management. According to Hofstede, Canadian culture has low power distance, moderate uncertainty avoidance, short-term orientation, high individualism, moderate masculinity, and high indulgence. Russia's culture has high power distance, high uncertainty avoidance, long-term orientation, low individualism, low masculinity, and low indulgence. In light of what you know about cultural differences, how well do you think Canadian managers can succeed using each of the following HRM practices? (Explain your reasons.)
  - a. Selection decisions based on extensive assessment of individual abilities
  - b. Performance feedback and reviews based on individual performance
  - c. Systems for gathering suggestions from workers
  - d. Self-managing work teams
  - e. Unlimited vacation time
5. Besides cultural differences, what other factors affect human resource management in an organization with international operations?

6. Suppose you work in the HR department of a company that is expanding into a country where the law and culture make it difficult to lay off employees. How should your knowledge of that requirement affect workforce planning for the international operations?
7. Suppose an organization decides to improve collaboration and knowledge sharing by developing an intranet to link its global workforce. It needs to train employees in several different countries to use this system. List the possible cultural issues you can think of that the training program should take into account.
8. Think of a time when you successfully navigated another country's cultural norms (e.g., for work or on a vacation). What factors made your experience a positive one? Did you face any major obstacles? Is there anything you would do differently next time?
9. What types of skills do you need to be able to manage in today's global workforce? Where do you expect to get those skills? What classes and/or experiences will you need?
10. In the past, a large share of expatriate managers from Canada have returned home before successfully completing their international assignments. Suggest some possible reasons for the high "failure" rate. What can HR departments do to increase the success of expatriates?

## EXPERIENCING HR—GLOBAL IMPLICATIONS OF HRM

In groups of four or five students, imagine that you are the Human Resources team of Manitobah Mukluks, the Indigenous-owned manufacturer of footwear based in Winnipeg and briefly discussed earlier in the chapter. Review this chapter, including the photo and caption, about Manitobah Mukluks and do some online research to learn more about this company. Check out the article "Mukluks Company Steps into Global Success" on the Canadian Trade Commissioner Service website for additional information about how Manitobah Mukluks has successfully navigated global growth to sell more than 200,000 pairs of moccasins and boots and achieved annual sales of more than \$15 million.

As a group, discuss and summarize the story of Manitobah Mukluks and describe its level of global participation. What are the most important factors that impact HRM as it relates to the company's global operations and sales? What is your advice to Manitobah Mukluks about the global implications of HR practices including workforce planning, selection, training, performance management, and compensation and rewards?

Be prepared to summarize your finding and HR advice for Manitobah Mukluks in class (or, if your instructor directs, write a one-page summary of your discussion).

## CASE STUDY: EVIDENCE-BASED HRM

### How "Good Things Happen to Costco"

Talking to a reporter, Costco's Chief Executive Craig Jelinek had a habit of stating the conditions in which "good things will happen to you." To summarize Costco's retail strategy, Jelinek said, "As long as you continue to take care of the customer, take care of employees, and keep your expenses in line, good things are going to happen to you." Indeed, good things *have* happened to Costco, which stands out from other retailers by remaining profitable and avoiding layoffs.

Although Costco has a growing online presence, the company is mainly a chain of warehouse stores that charges consumers a membership fee to enjoy rock-bottom prices. Although Costco is a U.S. company, almost 30 percent of its warehouses are in international markets, which include Canada, Mexico, Korea, Japan, United Kingdom, Australia, Taiwan, Spain, France, and Iceland. This international market segment is reported to contribute approximately one-quarter of Costco's total revenues and is expected to become its fastest-growing segment with \$36 billion in revenues forecast by 2020.

By ordering in bulk packages, displaying goods on pallets and steel shelving, and setting markups just a sliver

over costs, Costco lures shoppers with low prices. It makes most of its profits from selling memberships. Consumers like the arrangement: the renewal rate in international countries is over 80 percent. Costco's commitment to shaving expenses carries over to its plain headquarters but not to the way it treats employees. Since the 1980s, Costco has increased pay rates every three years, keeping compensation well above industry norms. Even during the financial crisis in 2009, Costco announced raises. Costco reported that 88 percent of its employees had company-sponsored health insurance plans, compared with Walmart's statement saying "more than half" of employees were covered. Costco also has resisted layoffs. For example, as other companies downsized store workforces and installed self-checkout lanes, Costco determined that its employees were more efficient and better suited to its customer service goals.

These decisions assume that satisfied employees will build a stronger company by being more committed to the organization and less likely to quit. Costco has a low rate of employee turnover (the percentage who quit each year): 5 percent among employees with at least a year on the job, or about one-quarter the industry average. The company



therefore spends less to recruit and train new employees, and employees have more experience they can apply to providing great service. Costco also utilizes store employees as its main source of management talent. It pays tuition for hourly workers to pursue their education and move up the corporate ladder. By way of example, CEO Craig Jelinek joined Costco in 1984 and had many varied positions with the company before taking over the CEO job from Costco founder James Sinegal in 2012.

Costco's executives credit the treatment of employees with helping the company thrive. Its sales and stock price have been surging over the past few years. Costco also recently began selling in China using the dedicated

e-commerce channel Tmall Global, and analysts predict that its first physical location in China could be coming soon.

### Questions

1. What would you describe as Costco's basic strategy as a global retailer? How do its human resource practices support that strategy?
2. Instead of asking, "How can we make the customer pay more for this?" Costco asks, "Could this be less expensive for the customer?" What evidence from the case suggests that Costco's approach to people management supports this business priority?

**Sources:** Barbara Farfan, "Costco's Retail Innovation Craze," *The Balance Small Business*, April 16, 2018, [www.thebalancesmb.com](http://www.thebalancesmb.com), Trefis Team, "How Will Costco's International Business Perform Going Forward?," *Nasdaq*, January 2, 2018, <https://www.nasdaq.com>; Nat Berman, "10 Things You Didn't Know About Craig Jelinek," *Money Inc.*, January 2018, <https://moneyinc.com>; Shannon Pettypiece, "Costco Will Raise Minimum Wage as Competition for Workers Grows," *Bloomberg Business*, March 3, 2016, <http://www.bloomberg.com>; Elizabeth A. Harris, "Walmart Will Lay Off 2,300 Sam's Club Workers," *New York Times*, January 24, 2014, <http://www.nytimes.com>; Caroline Fairchild, "Bulking Up Abroad," *Fortune*, January 16, 2014, <http://money.cnn.com>; Brad Stone, "Costco CEO Craig Jelinek Leads the Cheapest, Happiest Company in the World," *Bloomberg Businessweek*, June 6, 2013, <http://www.businessweek.com>; Anne Fisher, "A Blueprint for Creating Better Jobs—and Bigger Profits," *Fortune*, December 12, 2013, <http://management.fortune.cnn.com>.

## CASE STUDY: HRM SOCIAL

### Online Communities Support Expats' Spouses

A common reason cited for the failure of an international assignment is that the expatriate's spouse was dissatisfied. The role of an accompanying spouse is difficult; often this person is not legally allowed to work in the host country, so it is more difficult to find new friends and meaningful activities.

Employers can help the accompanying spouse make connections. An employer, especially one with a lot of expatriate employees, might set up its own network for spouses. In The Netherlands, Eindhoven University of Technology recruits one-third of its employees from other countries but found that many left after a short period because spouses were unhappy there. It began offering spouses a "Get in Touch" program of weekly meetings to exchange information and visit places of interest. Between meetings, the spouses can keep in contact by joining the group's Facebook community. After the three-month program ended, many of the participants didn't want to stop participating, so the university added a "Stay in Touch" program.

Another approach is to provide information about non-company-related social networks for expatriate spouses. Spouses may appreciate the chance to build their own circle of friends. One example is the Trailing Spouse

Network, a LinkedIn group where people can share ideas, advice, and support. The Trailing Spouse Network also has a Facebook page.

Increasingly often, the accompanying spouse is male. Some men have had an especially hard time making connections, because support services have been geared to women. Male spouses might especially welcome information about social networks. In Belgium, for instance, a group of men set up a group called STUDS (for Spouses Trailing under Duress Successfully), which offers activities and keeps members connected online with a blog. Even after leaving Belgium, friends who met in STUDS can keep in touch by posting news and questions on the blog's website.

### Questions

1. What pros and cons do you see in having an organization set up its own social network for accompanying spouses and partners?
2. What pros and cons do you see in referring an accompanying spouse or partner to an outside social network?

**Sources:** Brookfield Global Relocation Services, *2016 Global Mobility Trends Survey*, <http://knowledge.brookfieldgrs.com>; Kendra Mirasol, "Following Her Job to Tokyo? Challenges Facing the Expat Male Trailing Spouse," IOR Global Services, <http://www.iorworld.com>, accessed June 24, 2016; Portable Career Network, "Trailing Spouse Network," <http://www.portablecareer.net>, accessed June 24, 2016; "STUDS (Spouses Trailing under Duress Successfully)," (A)way Magazine, <http://www.awaymagazine.be>, accessed June 24, 2016; Roy Stevenson, "The Trials & Triumphs of a Male Expat Trailing Spouse," *Global Living*, March/April 2014, <http://globallivingmagazine.com>; Willem G. van Hoorn and Carola L. L. Eijzenring, "Setting Up a Social Support Program for Accompanying Spouses of International Knowledge Workers," *People & Strategy* 36, no. 4 (2014): 60–61, 64.