

Chapter 17

Human Resource Management in the Global Firm

Learning Objectives *After studying this chapter, you should be able to:*

- 17.1** Understand the strategic role of human resources in international business.
- 17.2** Explain international staffing policy.
- 17.3** Describe the process of establishing training needs and programs to help employees perform well in international environments.
- 17.4** Discuss performance appraisal and compensation of international employees.
- 17.5** Understand international labor relations.
- 17.6** Describe diversity in the international workforce.

Etisalat Egypt: Attracting and Maintaining the Best Employees

Etisalat is an Emirates-based telecommunications company now operating in 15 countries in the Middle East, Asia, and Africa. Their biggest claim to excellence is that Etisalat was able to attract 1 million subscribers in Egypt within their first 50 days of operations. Simply put, they believe they are the best and they believe that in order to maintain their standing as an outstanding service provider, they need to ensure that each aspect of the business is able to uphold the quality of service expected from a global company.

Operating in such a dynamic and labor-intensive industry and drawing from the experience of operating in several countries around the world, Etisalat understands the need to uphold the highest standards when it comes

to their employees. In fact, they recognize that the core of their success stems directly from the performance of their employees.

As the third mobile operator to open in Egypt, Etisalat's focus on hiring the best telecom employees and continuously inspiring them to be the best was, no doubt, one of the reasons why Etisalat was able to build a strong consumer base in a short number of years despite the fierce competition in the telecom industry. In Egypt, Vodafone has 45 million connections; Orange, 45 million; and Etisalat, 23 million.

Etisalat realizes that operating in the service sector means it must ensure that its people are highly skilled, motivated, and talented in order to provide the best service possible. In order to promote such employee



Source: Maksym Poriechkin/Shutterstock

behavior, Etisalat has focused on creating a corporate culture that incorporates the following values:

- Proudly Etisalat: a combination of customer focus as well as passion to be the best
- Respectful: towards one another, respected within the organization and feeling a sense of ownership of the business
- Outstanding: a winning, fighter's attitude, in addition to taking initiative and going the extra mile whenever possible
- Unique: leading by example, being an inspiration to others and creating opportunities for innovation
- Delivering: proactively, ambitiously, and with a sense of responsibility for delivering on individual and team promises

Etisalat believes in the power its employees have to affect their performance as a company. They understand that the customer experience is not only

affected by the technical aspects of the service, but more importantly by the services they receive from the employees they interact with. Therefore, it is essential for them to ensure that their employees around the globe are not only aware of their impact on the consumer's perception of the business but actively work toward continuously enhancing customer satisfaction across the board in all the various consumer interaction channels.

Today, the Etisalat Group is one of the world's leading telecommunication companies that focuses on emerging markets. Brand Finance Middle East valued the brand at \$7.7 billion in their Global 500 ranking 2018—Etisalat is one of a small number of Middle East-based companies to get into the top 500. Furthermore, Etisalat was 217th in the top 500 companies, which was a rise of 75 places compared to its position in 2016. Etisalat's continued growth has been attributed to its Smiles loyalty program, its user-friendly app, its smart customer service experience centers, and its sponsorship of global football brands such as Manchester City.

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Diverse and Multicultural Work Environments, Reflective Thinking, Application of Knowledge, and Interpersonal Relations and Teamwork.

Questions

- 17-1.** Etisalat HR slogan is “Satisfied employees create satisfied customers.” What does this mean?
- 17-2.** How does Etisalat ensure that their employees have access to quality career development programs?
- 17-3.** Suggest ways that a corporation like Etisalat might create an comprehensive training program.

SOURCES: Etisalat web portal, http://etisalat.com.eg/etisalat/Etisalat_Portal_En/about/why_etisalat.htm; http://etisalat.com.eg/etisalat/Etisalat_Portal_En/about/culture_values.htm; and notification02.etisalat.com.eg/etisalat/Etisalat_Portal_En/about/culture_values.htm.

Human resources refer to the employees who make up the workforce of a business or other organization. The organizational function that oversees such assets is called human resource management (HRM, or simply HR). Leading-edge companies refer to their employees as “human talent,” “human capital,” or “intangible assets,” emphasizing that they represent a strategic investment rather than a cost. This is especially true in knowledge-intensive industries such as management consulting, banking, advertising, engineering, and architecture. Without problem solvers, knowledge workers, and other creative personnel, firms such as McKinsey, Pixar, Gucci, Nokia, and many others would have great difficulty competing globally.

Multinational human resource managers recognize that their employees and the knowledge they possess are among their most important strategic assets. Recruiting, managing, and retaining human resources are especially challenging at firms with operations scattered around the world.

For example, consider Siemens, the German MNE. In 2018, Siemens employed more than 370,000 people in some 200 countries. These included 190,000 people throughout Europe; 100,000 in North and South America; 70,000 in the Asia-Pacific region; and 10,000 in Africa, the Middle East, and Russia. Like Siemens, Hutchison Whampoa, IBM, Nestlé, Panasonic, McDonald’s, Tata Consultancy Services, Unilever, Volkswagen, and Walmart each has more than 100,000 employees working outside their home countries.

In this chapter, we examine the critical role of human resources in the multinational enterprise. We describe the planning and training that firms undertake to recruit and prepare employees to work in international operations. We explain the complexities of compensating managers who work abroad, the complex nature of international labor relations, and the value of maintaining a diverse global workforce. We begin by examining the strategic role that managers and the workforce play in company operations around the world.

17.1 Understand the strategic role of human resources in international business.

International human resource management (IHRM)

The planning, selection, training, employment, and evaluation of employees for international operations.

The Strategic Role of Human Resources in International Business

International human resource management (IHRM) refers to the planning, selection, training, employment, and evaluation of employees for international operations.¹ Management struggles with a wide range of challenges in hiring and managing workers within the distinctive cultural and legal frameworks that govern employee practices around the world. International human resource managers, usually located at corporate or regional headquarters, support subsidiary managers by providing IHRM guidelines and by hiring, training, and evaluating employees for international operations.

For example, a Canadian MNE may employ Italian citizens in its subsidiary in Italy (HCNs), send Canadian citizens to work in the Asia-Pacific region on assignment (PCNs), or assign Swiss employees to its subsidiary in Turkey (TCNs).

In a firm with multicountry operations, there are generally three types of managers:

- **Parent-country nationals (PCNs).** These managers are citizens of the country where the MNE is headquartered. They are also called “home-country nationals.”
- **Host-country nationals (HCNs).** They are citizens of the country where the MNE’s subsidiary is located. They are typically the largest proportion of workers hired abroad and usually work in manufacturing, assembly, basic service activities, clerical work, and other nonmanagerial functions.
- **Third-country nationals (TCNs).** They are citizens of countries other than the home or host country. They typically work in management and are usually hired because of their special knowledge or skills.

Parent-country national (PCN)

An employee who is a citizen of the country where the MNE is headquartered.

Host-country national (HCN)

An employee who is a citizen of the country where the MNE subsidiary or affiliate is located.

Third-country national (TCN)

An employee who is a citizen of a country other than the home or host country.

Expatriate

An employee assigned to work and reside in a foreign country for an extended period, usually a year or longer.

Employees in any of the three categories assigned to work and reside in a foreign country for an extended period, usually a year or longer, are called **expatriates** (sometimes shortened to *expat*). A U.S. firm might employ a German manager in its subsidiary in France or transfer a Japanese executive to its U.S. headquarters.² Both these managers are expatriates. Although expatriates comprise only a small percentage of the workforce in most MNEs, they perform many critical functions.

For IHRM managers, the ultimate challenge is to ensure that the right person is in the right position at the right location with the right pay scale. In some countries, it is easier to get work visas for employees with specific specialized skills. For example, high technology sectors in China have experienced a shortage of mid- and senior-level managerial talent. Professionals from around the world can obtain work visas and gain posts in China, receiving compensation packages that are now competitive by advanced economy standards.³

Differences Between Domestic and International HRM

International human resource management is usually more complex than domestic human resource management. Exhibit 17.1 illustrates six factors that drive this complexity.⁴ Let’s examine each in turn.

- **New HR responsibilities.** IHRM managers encounter numerous factors not necessarily present at home, including foreign taxation issues for expatriates, international relocation and orientation, expatriate family support, host-government relations, language translation services, and repatriation (returning the expatriate to his or her home country).
- **Need for a broader, international perspective.** Management must account for all its PCNs, HCNs, and TCNs, who may be nationals of numerous countries. In an emerging market, such as Vietnam, compensation may need to include allowances for housing, education, and other facilities not readily available there. Large MNEs are often challenged by the need to establish a fair and comparable compensation scale for employees, regardless of nationality. For example, an Australian posted to Brazil can be subject to income tax from both

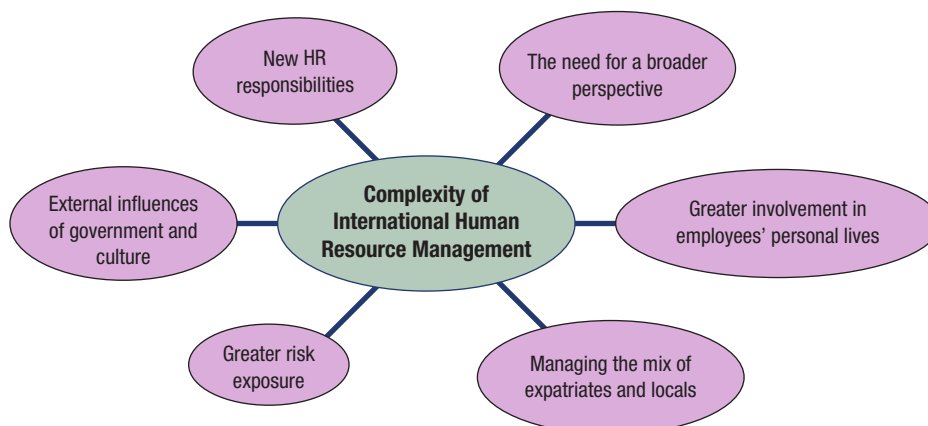


EXHIBIT 17.1

Factors That Increase the Complexity of Human Resource Management in International Business

Sources: Based on Peter Dowling and Marion Festing, *International Human Resource Management* (Boston: Cengage Learning, 2017).

countries. Tax equalization—ensuring that there is no tax disincentive to take an international assignment—is complex.

- *Greater involvement in employees' personal lives.* Human resource professionals help expatriates and their families with housing arrangements, health care, children's schooling, safety, and security. Some expatriates may require additional temporary compensation because of higher living costs in some foreign locations.
- *Managing the mix of expatriates and locals.* Foreign subsidiaries may be staffed from the home country, the host country, and/or third countries. The mix of staff depends on several factors, including the firm's level of international experience, cost of living in the foreign location, and availability of qualified local staff.
- *Greater risk exposure.* Employee productivity, labor union activism, employee turnover, and other human resource phenomena are often more pronounced abroad. Exposure to political risk and terrorism are major concerns for IHRM professionals and may require greater compensation and security arrangements for employees and their families.
- *External influences of the government and national culture.* Employees must be hired, evaluated, and compensated in ways consistent with country and regional customs and regulations. Laws govern work hours, the firm's ability to dismiss or lay off employees, and severance pay. In many countries, labor unions are active in managing the firm. In France, Germany, and Spain, employees may work no more than a set number of hours per week, sometimes as few as 35. Italy's labor regulations are so complex that many companies delay hiring new workers.⁵

KEY TASKS IN INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Exhibit 17.2 outlines six key tasks of international human resource managers.

- *International staffing policy*, activities related to recruiting, selecting, and placing employees.
- *Preparing and training international employees.*
- *International performance appraisal*, providing feedback necessary for employees' professional development.
- *Compensation of employees*, including benefits packages that may vary greatly from country to country.

EXHIBIT 17.2

Key Tasks and Challenges of International Human Resource Management

Task	Strategic Goals	Illustrative Challenges
International staffing policy	<ul style="list-style-type: none"> • Choose between home-country nationals, host-country nationals, and third-country nationals • Develop global managers • Recruit and select expatriates 	<ul style="list-style-type: none"> • Avoid country bias, nepotism, and other local practices • Cultivate global mind-set
Preparation and training of international employees	<ul style="list-style-type: none"> • Increase effectiveness of international employees, leading to increased company performance • Train employees with an emphasis on area studies, practical information, and cross-cultural awareness 	<ul style="list-style-type: none"> • Minimize culture shock and expatriate assignment failure
International performance appraisal	<ul style="list-style-type: none"> • Assess, over time, how effectively managers and other employees perform their jobs abroad 	<ul style="list-style-type: none"> • Strike the right balance between standardized and localized employee performance benchmarks
Compensation of employees	<ul style="list-style-type: none"> • Develop guidelines and administer compensation (e.g., base salary, benefits, allowances, and incentives) 	<ul style="list-style-type: none"> • Avoid double taxation of employees
International labor relations	<ul style="list-style-type: none"> • Manage and interact with labor unions, engage in collective bargaining, handle strikes and other labor disputes, wage rates, and possible workforce reduction 	<ul style="list-style-type: none"> • Reduce absenteeism, workplace injuries due to negligence, and the occurrence of labor strikes
Diversity in the international workforce	<ul style="list-style-type: none"> • Recruit talent from diverse backgrounds to bring specific knowledge and experience to the firm's problems and opportunities 	<ul style="list-style-type: none"> • Achieve gender diversity

- *International labor relations*, including interacting with labor unions and collective bargaining.
- *Diversity in the international workforce*.

The remainder of this chapter is devoted to examining these tasks.

International Staffing Policy

17.2 Explain international staffing policy.

A critical task for MNEs is to decide the ideal mix of employees in the firm's foreign subsidiaries and affiliates. The ideal mix varies by location, industry, stage in the value chain, and availability of qualified local workers. Country laws may dictate how many employees can come from nonlocal sources.

Exhibit 17.3 shows the criteria and rationale for hiring each type of employee.⁶ Firms usually post PCNs abroad to take advantage of their specialized knowledge, especially in upstream value-chain operations, or to maintain local control over foreign operations. PCNs can also help develop local managers.

Firms prefer HCNs when the host-country environment is complex and their specialized knowledge or local connections are required in the local marketplace. HCNs often perform downstream value-chain activities, such as marketing and sales, which require extensive local knowledge. It is usually less costly to compensate them than PCNs or TCNs.

Firms often prefer TCNs when senior management wants to transfer specific knowledge or corporate culture from third countries to host-country operations. Worldwide staffing with TCNs helps firms develop an integrated global enterprise.

Recruiting, Selecting, and Developing Talent

Recruitment is searching for and finding potential job candidates to fill the firm's needs. *Selection* is gathering information to evaluate and decide who should be employed in particular jobs. A big challenge for most MNEs is finding talented managers willing and qualified to work outside their home countries. Schlumberger Limited is a Texas oil company with operations worldwide. Schlumberger's human resources department is a strategic asset for finding and developing talent, especially engineers, around the world. Among other initiatives, Schlumberger assigns high-level executives as ambassadors to important engineering schools, such as Kazakhstan's

EXHIBIT 17.3

Criteria for Selecting Employees for Foreign Operations

Staff with Parent-Country Nationals (PCNs) When...	Staff with Host-Country Nationals (HCNs) When...	Staff with Third-Country Nationals (TCNs) When...
Headquarters wants to maintain strong control over its foreign operations.	The country is distant in terms of culture or language (such as Japan), or when local operations emphasize downstream value-chain activities such as marketing and sales, as HCNs usually understand the local business environment best.	Top management wants to create a global culture among the firm's operations worldwide.
Headquarters wants to maintain control over valuable intellectual property that is easily dissipated when accessible by HCNs or TCNs.	Local connections and relations are critical to operational success (such as relations with the government in Russia).	Top management seeks unique perspectives for managing host-country operations.
Knowledge sharing is desirable among headquarters and the subsidiaries, particularly for developing local managers or the host-country organization.	The local government requires the MNE to employ a minimum proportion of local personnel, or tough immigration requirements prevent the long-term employment of expatriates.	Headquarters wants to transfer knowledge and technology from third countries to host-country operations.
Foreign operations emphasize R&D and manufacturing, because PCNs are usually more knowledgeable about such upstream value-chain activities.	Cost is an important consideration; salaries of PCNs, especially those with families, can be up to four times those of HCNs.	The firm cannot afford to pay the expensive compensation typical of PCNs.



Source: Iakov Filimonov/Shutterstock

Successful expatriates have family members who cope well in new environments.

Kazakh National Technical University, Beijing University, Massachusetts Institute of Technology, and Universidad Nacional Autónoma de México. IBM, Nokia, and Unilever are also proactive in finding and developing international talent.⁷

Developing talent is a multistep collaboration between human resource managers and executive management. Together, they need to:

- Analyze the firm's growth strategies and the mission-critical roles needed to achieve them.
- Define the desired intangible, soft skills, behaviors, and experiences for each role.
- Examine the firm's current supply of talent and create a plan to acquire needed talent.
- Develop talent internally and acquire existing or potential talent from outside the firm.
- Assess current and potential talent according to each individual's performance over time, willingness to learn, learning skills, and commitment to career advancement.⁸

Cultivating Global Mind-Sets

Some firms are staffed at headquarters by ethnocentric managers who believe their ways of doing business are best and can be transferred easily to other countries.⁹ More sophisticated MNEs have a *geocentric orientation*—they staff headquarters and subsidiaries with the most competent people, regardless of national origin. A geocentric orientation is synonymous with a *global mind-set*. Managers with a global mind-set are open to diverse and multicultural work environments on both global and local levels.¹⁰ They do not force headquarters business methods on foreign subsidiaries. However, many employees lack the intangible, soft skills, traits, or global mind-set needed for expatriate positions. Many managers prefer to remain at home.

Managers best suited to working in foreign environments typically have the following characteristics:

- *Job knowledge.* In distant locations, managers need sufficient knowledge of the administrative and technical dimensions of their job and organization to fulfill company goals and objectives.
- *Self-reliance.* Having an entrepreneurial orientation, a proactive mind-set, and a strong sense of innovativeness are important because expatriate managers frequently function with increased independence abroad and limited support from headquarters.
- *Adaptability.* International managers need to perform in diverse and multicultural work environments. The most important traits are cultural empathy, flexibility, diplomacy, and a positive attitude for overcoming stressful situations.
- *Interpersonal relations and teamwork skills.* The best candidates get along well with others. Building and maintaining relationships is key, particularly for managers who interact with numerous colleagues, employees, local partners, and government officials.
- *Leadership ability.* The most successful managers view change positively. They skillfully manage threats and opportunities that confront the firm. They collaborate with employees to implement strategies and facilitate successful change.
- *Physical and emotional health.* Living abroad can be stressful. Expatriates must learn to adapt to the local culture. Medical care is often different and may be difficult to access.
- *Spouse and dependents prepared for living abroad.* The candidate's spouse and other family members need the desire and ability to cope with unfamiliar environments and cultures.

Employees with a global mind-set strive to understand organizational and group dynamics to create consensus on a team. Members of a *global team* require specialized training to work effectively with others from different cultures and life experiences.

Cultural Intelligence

Human resource managers need to prepare expatriates and their families to live and work effectively in new cultural environments. Employees should be trained to understand local government regulations, cultural norms, and language differences and to adapt to local customs such as gift giving and business dining.

Cultural intelligence is an employee's ability to function effectively with those from different cultural backgrounds or in different cultural contexts.¹¹ It has four dimensions.

- *Strategy* describes how an employee makes sense of cross-cultural experiences through her or his judgments.
- *Knowledge* is the employee's understanding of cultural dimensions such as values, social norms, religious beliefs, and language.
- *Motivation* measures the employee's interest in interacting with people from different cultures and confidence in doing so effectively.
- *Behavioral flexibility* is the employee's ability to adopt verbal and nonverbal behaviors appropriate in different cultures.¹²



Source: Tom Markus/123RF

Cultural intelligence implies the ability to function well in complex cultural environments.

Cultural intelligence

An employee's ability to function effectively in situations characterized by cultural diversity.

Expatriate Assignment Failure and Culture Shock

What happens when things go wrong for the employee working abroad? **Expatriate assignment failure** describes the employee's premature return from an international assignment. It occurs when the employee is unable to perform well or because his or her family has difficulty adjusting. Such failure is costly to company productivity and goals and adds to the costs of relocating. Failure can also affect expatriates themselves, leading to diminished careers or problems in their family lives. As many as one-third of foreign assignments end prematurely due to expatriate assignment failure. The rate is high among employees assigned to countries with large culture and language differences.

A leading cause of expatriate assignment failure is **culture shock**—confusion and anxiety experienced by a person who lives in a foreign culture for an extended period.¹³ It can affect the expatriate or family members and results from an inability to cope with the differences experienced in a foreign environment. Inadequate language and cross-cultural skills tend to worsen culture shock because the expatriate is unable to function effectively in the foreign environment or fails to communicate well with locals. Most expatriates and their families who experience culture shock overcome it, usually within a few months, but a few give up and return home early.¹⁴

Expatriate assignment failure

An employee's premature return from an international assignment.

Culture shock

Confusion and anxiety experienced by a person who lives in a foreign culture for an extended period.

Preparation and Training of International Employees

Preparation is crucial to help employees better understand, adapt, and perform well in foreign environments. International human resource managers must assist subsidiary management in assessing the needs of host-country workers and devise training programs that enable them to achieve their work responsibilities. These include manufacturing, marketing, sales, after-sales services, or business processes such as accounting and records management.

Exhibit 17.4 highlights key features of preparation and training programs for international workers. Training consists of three components.

- **Area studies**—factual knowledge of the historical, political, and economic environment of the host country.

17.3 Describe the process of establishing training needs and programs to help employees perform well in international environments.

Area studies

Factual knowledge of the historical, political, and economic environment of the host country.

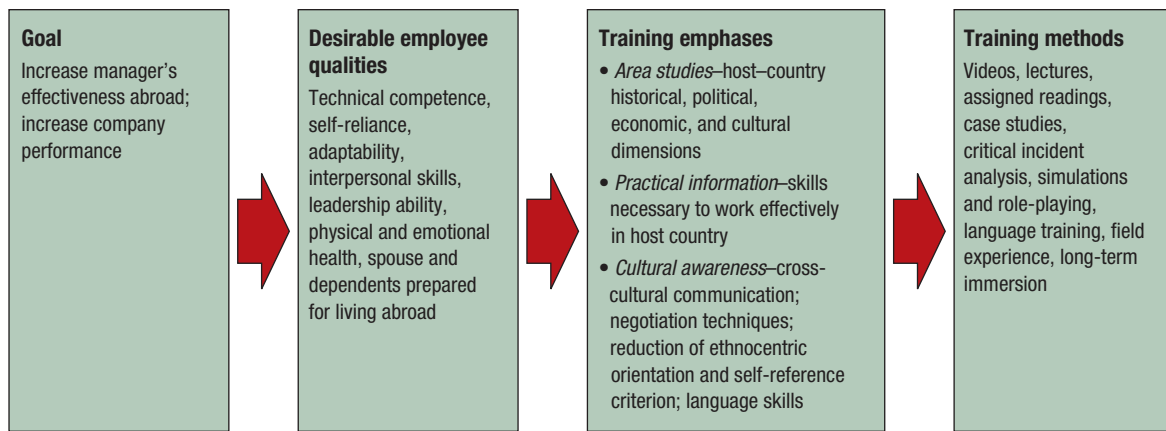


EXHIBIT 17.4

Key Features of Preparation and Training for International Employees

Practical information

Knowledge and skills necessary to function effectively in a country, including housing, health care, education, and daily living.

Cross-cultural awareness

Ability to interact effectively and appropriately with people from different language and cultural backgrounds.

- **Practical information**—knowledge and skills necessary to function effectively in a country, including housing, health care, education, and daily living.
- **Cross-cultural awareness**—the ability to interact effectively and appropriately with people from different language and cultural backgrounds.¹⁵

Employees benefit from training in the host-country language and learning to communicate more effectively with local colleagues and workers, suppliers, and customers. Language skills allow them to monitor competitors, recruit local talent, and improve relations with host-country officials and organizations. Language skills also increase employee insights and enjoyment of the local culture.

Cross-cultural awareness training increases intercultural sensitivity and effectiveness. Managers need to be well versed in how best to act in diverse and multicultural work environments, negotiate with customers and suppliers, and adapt to the local culture. Training should help employees avoid the *self-reference criterion*—the tendency to view other cultures through the lens of your own culture.

Training methods vary. They include videos, lectures, assigned readings, case studies, books, web-based instruction, critical incident analyses, simulations, role-playing, language training, field coaching, and long-term immersion. In role-playing and simulations, the employee acts out typical encounters with foreigners. *Critical incident analysis* examines an episode in which tension arises between employee and foreign counterpart due to a cross-cultural misunderstanding. Field coaching involves a visit to the host country, usually for one or two weeks. Long-term immersion puts the employee in the country for several months or more, often for language and cultural training. In choosing training methods, the firm must balance between rigor and the degree of interaction required abroad.¹⁶

Preparing Employees for Repatriation**Repatriation**

The expatriate's return to his or her home country following the completion of a foreign assignment.

Repatriation is the expatriate's return to his or her home country following completion of a foreign assignment. Like expatriation, it requires advance preparation, this time to help the employee avoid problems upon returning home. Some expatriates report financial difficulties upon returning, such as higher housing costs. Some find their international experience is not valued, and they may be placed in a position less important than the one they held before the foreign assignment. Others experience reverse culture shock, difficult readjustment to home-country culture. For those who have spent several years abroad, and for their families, adjustment to life back home can be stressful. As many as one-quarter of expatriates leave their firm within one year of returning home. Others refuse to undertake subsequent international assignments.¹⁷

International human resource managers can help reduce repatriation problems by providing counseling on the types of problems employees face upon returning home. While the expatriate is abroad, the firm can monitor his or her compensation and career path. After repatriation, the firm can provide bridge loans and other interim financial assistance, as well as counseling, to

address both career and psychological needs. The firm needs to ensure that the expatriate has a career position equal to, or better than, the one held before going abroad.

Charting Global Careers for Employees

Many firms create career development programs that provide high-potential employees with opportunities to gain experience both at headquarters and in the firm's operations around the world. They do this because, as the firm generates an increasing proportion of sales and earnings from abroad, it needs globally experienced employees capable of managing company operations worldwide. This approach broadens the pool of global talent for managerial positions and visibly demonstrates top management's commitment to its global strategy.

For example, employees at Unilever (www.unilever.com) cannot advance far professionally without substantial international experience. This Anglo-Dutch firm has numerous programs to develop international leadership skills. Managers are rotated through various jobs and locations around the world, especially early in their careers. Unilever maintains a **global talent pool**—a searchable database of employees that profiles their international skills and potential for supporting the firm's global goals. Human resource managers search the database for the recruit with ideal qualifications, regardless of where he or she works in Unilever's global network. They identify the best global talent and present candidates to the appropriate business managers for final selection.¹⁸

Exhibit 17.5 highlights the best global companies to work for, based on employee surveys on such criteria as executive team effectiveness, quality of work environment, and support for employee development. Such firms tend to be especially effective at developing globally proficient employees.

Global talent pool

A searchable database of employees, profiling their international skill sets and potential for supporting the firm's global aspirations.

EXHIBIT 17.5

Best Global Companies to Work For

Rank	Company Name	Headquarters Location	Industry	Number of Employees
1	Google	United States	Information technology	57,000
2	SAS Institute	United States	Information technology	14,000
3	W. L. Gore & Associates	United States	Textiles and textile products	11,000
4	Dell EMC	United States	Storage and data management	70,000
5	Daimler Financial Services	Germany	Financial services and insurance	9,000
6	NetApp	United States	Storage and data maintenance	13,000
7	Adecco	Switzerland	Professional services	35,000
8	Autodesk	United States	Information technology	9,000
9	Belcorp	Peru	Retailing	9,000
10	Falabella	Chile	Retailing	103,000
11	Hyatt	United States	Hospitality	97,000
12	Mars	United States	Processed foods	75,000
13	Accor	France	Hospitality	144,000
14	Cisco	United States	Information technology	70,000
15	Cadence Design Systems	United States	Software	7,000
16	Atento	Spain	Business process outsourcing	150,000
17	Hilton	United States	Hospitality	149,000
18	Scotiabank	Canada	Banking and financial services	87,000
19	Diageo	United Kingdom	Beverages	33,000
20	S.C. Johnson	United States	Consumer goods	13,000

Sources: *Fortune*, "The 25 Best Global Companies to Work For," October 26, 2016, www.fortune.com; Hoover's, Inc. (2017), profiles of various companies, www.hoovers.com; Andrea Willege, "The Best Companies to Work For in 2017," *World Economic Forum*, February 6, 2017, www.weforum.com.

17.4 Discuss

performance appraisal and compensation of international employees.

Performance appraisal

A formal process for assessing how effectively employees perform their jobs.

Performance Appraisal and Compensation of International Employees

Performance appraisal is a formal process for assessing how effectively employees perform their jobs. Appraisals help a manager identify problem areas where an employee needs to improve and additional training is needed. Performance appraisals are typically conducted annually.

In appraising performance, managers compare mutually agreed-upon objectives with actual performance. MNEs typically devise diagnostic procedures to assess the performance of individual employees, see whether problems are attributable to inadequate skill levels, provide additional training and resources as needed, and terminate employees who consistently fail to achieve prescribed goals.

Firms assign employees duties or goals that vary from unit to unit. A new foreign subsidiary might be charged with establishing relationships with key customers and rapidly increasing sales. A manufacturing plant might be tasked with ensuring high productivity or maintaining high-quality output. When a subsidiary performs poorly, the local manager must resolve problems and get the unit back on track.

The following factors make performance evaluations more complex in the international context.¹⁹

- The problem of *noncomparable outcomes* arises because of differences in economic, political, legal, and cultural variables. For example, the firm should not punish a Mexican subsidiary manager because worker productivity is half that of home-country operations. Senior management must account for worker conditions, factory equipment, and other factors in Mexico that may result in lower productivity.²⁰ Different accounting rules may make financial results appear more favorable than under different accounting rules used in the home country.
- *Incomplete information* may result because headquarters is separated from foreign units by both time and distance. Headquarters staff often cannot directly observe employees working in foreign subsidiaries. To address this problem, two evaluators—one from headquarters and one based abroad—might assess subsidiary managers.
- Performance outcomes may be affected by the *maturity* of foreign operations. Relatively new subsidiaries may not achieve the same level of results as older subsidiaries staffed with more experienced personnel.

To avoid inaccurate or biased assessments, management needs to consider the presence of unique circumstances when appraising the performance of foreign subsidiaries, affiliates, and employees.

Compensation

Compensation packages vary across nations because of differences in legally mandated benefits, tax laws, cost of living, local tradition, and culture. Exhibit 17.6 presents the cost of

living in selected cities. Some world business capitals are expensive. Employees posted at foreign sites often expect to be paid at a level that allows them to maintain their usual home-country standard of living. This can add substantially to company costs. Managers typically consider four elements when developing compensation packages for employees working abroad.

- Base remuneration or wages
- Benefits
- Allowances
- Incentives

Base remuneration represents the salary or wages the employee typically receives in his or her home country. A local factory worker in Poland would receive wages equivalent to what average factory workers receive in the particular industry in Poland. A Japanese manager working in Singapore would receive a base salary comparable to that paid



Source: Syda Productions/Shutterstock

Learning about host-country culture, history, politics, and practical skills is critical to help expatriates succeed in international assignments and prepare their families for life abroad.

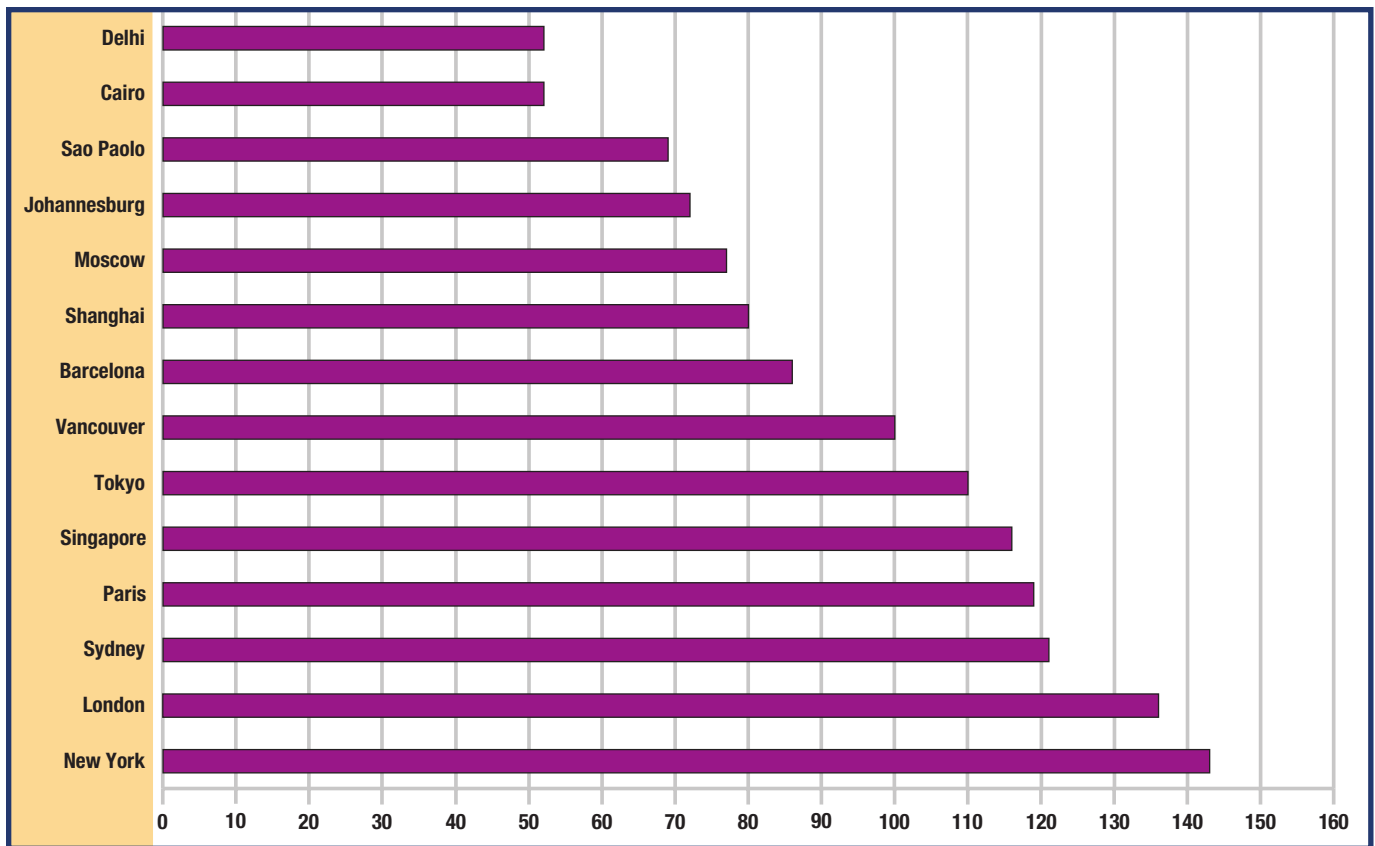


EXHIBIT 17.6

Cost of Living Index in Various Cities, 2018

Sources: Based on *Economist*, "Measuring the Cost of Living Worldwide," March 21, 2017, www.economist.com; Expatistan, *Expatriation Cost of Living Index*, 2018, www.expatriation.com; International Monetary Fund, "World Economic Outlook Database April, 2018," www.imf.org.

Note: The exhibit is an index scale where Vancouver, Canada = 100. Thus, for example, the cost of living in Paris and Shanghai is 1.19 and 0.80 times the cost of living in Vancouver, respectively.

to managers at the same level in Japan. Expatriate salaries are usually paid in the home currency, the local currency, or some combination of both.

Benefits include health care plans, life insurance, unemployment insurance, and paid vacation days. They typically account for one-third of the total compensation package but vary as a function of local regulation, industry practice, and taxability. Expatriates usually receive the benefits normally accorded to home-country employees.

Allowance is an additional payment that allows the expatriate to maintain a standard of living similar to that at home. It is intended to pay for the added costs of housing and, sometimes, food, transportation, and clothing in the relocation country. Additional support may be provided to cover relocation, children's education, travel, and business-related entertainment. Firms may provide additional hardship allowances to employees who work in countries with civil strife or other dangers or in developing economies that lack essential housing, education, and other facilities.

Given the potential hardships of working abroad, many MNEs also provide *incentives* to expatriate employees. The incentive is similar to a bonus. It is intended to motivate the employee to undertake extraordinary efforts to accomplish company goals abroad, particularly in new foreign markets. It is typically a one-time, lump-sum payment.²¹

In expatriate compensation, tax equalization is a special consideration. Expatriates may face two tax bills for the same pay, one from the host country and one from the home country. Most parent-country governments have devised regulations that allow the expatriate to minimize double taxation or pay income tax in only one country. When the employee incurs additional taxes, the employer will frequently reimburse her or him for this extra tax burden.

Ethical Connections

Executive compensation varies around the world. In China, the annual compensation of the president of a big bank is typically \$300,000. In the United Kingdom, the pay may reach \$3 million. In the United States, the compensation may exceed \$10 million. Ethics experts argue that CEOs should not earn salaries hundreds of times greater than entry-level employees. Lopsided compensation can hurt employee morale. Others argue that pay should be tied to company profitability; firms cannot attract top talent unless they pay top salaries. What is your view?

MyLab Management Watch It! 1

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise titled Joby Global HR Management.

17.5 Understand international labor relations.

Collective bargaining

Joint negotiations between management and hourly labor and technical staff regarding wages and working conditions.

International Labor Relations

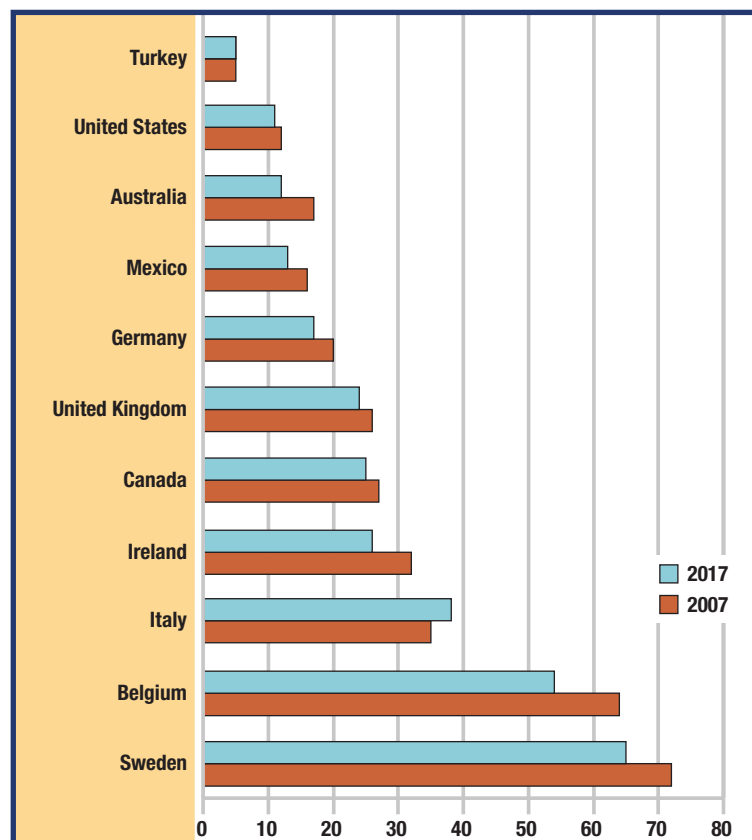
Labor relations is the process through which management and workers identify and determine job relationships that will apply in the workplace. *Labor unions* (also called trade unions) provide a means for **collective bargaining**—joint negotiations between management and hourly labor and technical staff regarding wages and working conditions. When the firm and labor union negotiate a relationship, they formalize it with a contract. Labor regulations vary substantially, from minimal rules in some developing economies to detailed laws and regulations in many advanced economies. In Germany, union workers in the auto industry have the right to reduce their weekly working hours to care for children, elderly or sick relatives. Workers at top German automakers—such as BMW, Daimler, and Volkswagen—can opt to work 28 hours a week for up to two years before returning to the standard 35-hour week.

Exhibit 17.7 illustrates the percentage of workers in each country that have formal union memberships. Note the recent gradual decline of union membership in many countries. It has fallen to less than 12 percent of workers in the United States and less than 18 percent in Australia,

EXHIBIT 17.7

Percentage of Workers Who Belong to Labor Unions, 2007 and 2017

Sources: Adapted from Melvyn Dubofsky and Joseph McCartin, *Labor in America: A History* (Malden, MA: John Wiley, 2017); Niall McCarthy, “Which Countries Have the Highest Levels of Labor Union Membership?,” *Forbes*, June 20, 2017, www.forbes.com; Organisation for Economic Co-operation and Development, “Trade Union,” accessed at www.oecd.org.



Germany, Mexico, and Turkey. However, union membership is relatively high in Sweden, where more than 65 percent of workers, including government employees, are unionized.²²

In many countries, labor laws have become less union-friendly than in the past. Employees are less likely to form a union if they feel they are treated fairly by company management. The trend toward outsourcing manufacturing and business processes to foreign suppliers also contributes to declining membership.²³ Germany has a strong tradition of unionized labor. It has seen a net outflow of FDI in recent years as German firms have established manufacturing facilities in Eastern Europe and Southeast Asia.

When management and labor fail to reach agreement, the union may declare a *strike*—an organized, collective refusal to work, with the aim of pressuring management to grant union demands. The incidence of strikes has declined worldwide, but they remain a powerful weapon with important implications for business. In 2018, labor unions in the rail and aviation industries in France held strikes to protest declining work and pay conditions. The strikes shut down trains and air travel, interrupted work in key industries, and forced millions of passengers to make alternate travel plans. A strike by workers at factories in China delayed production of products for Apple. Chinese workers participate increasingly in labor unions and strike to protest issues ranging from low pay to poor working conditions.²⁴

If a strike lasts more than a few days, a *mediator* or an *arbitrator* may be called in to negotiate between labor and management to end the dispute. A mediator is an expert in labor-management relations who brings both sides together and helps them reach a mutually acceptable settlement. An arbitrator is an expert third party who delivers a judgment in favor of one side or the other after assessing arguments presented by both sides.

Distinctive Features of Labor Around the World

Countries follow different approaches to labor, depending on their history, culture, tradition, and other local factors. In the United States, unionization is concentrated in such industries as automobiles and steel and among public-sector employees such as police and teachers. Union membership in the United States peaked in the 1950s, and the unionized labor force in various traditional industries has fallen in recent years. Globalization, capital mobility, and mass emigration from Mexico have affected the power of organized labor, leading to workforce restructuring. However, U.S. labor unions remain an important political force. Collective bargaining centers on wages, benefits, and workplace conditions and on representing members if management attempts to violate contract provisions.²⁵

Labor activism and dispute resolution through unions have grown significantly in China in recent years. Given close ties between Chinese labor and government, Western managers usually deal extensively with China's national and local governments in managing labor relations. Walmart had to accept employee unions in its stores in China—something it does not normally do. China has a developing independent labor movement. Workers have staged thousands of strikes and protests there to demand better wages and working conditions.

Unions are a factor in reducing the occurrence of sweatshops and other poor working conditions in China.²⁶ The government has launched several initiatives to protect workers' rights better, including new legislation. A campaign by the All-China Federation of Trade Unions (ACFTU), the world's largest labor federation with more than 130 million members, is seeking to unionize workers at all foreign firms operating in China. The ACFTU functions largely to bridge labor demands and the interests of the Chinese government.²⁷

Unions in Europe often represent not only factory workers but white-collar workers such as physicians, engineers, and teachers. They hold considerable political power and may be allied with a particular political party, usually the Labor Party. A unique feature in Europe, especially in Germany and the Scandinavian countries, is labor union participation in determining wage rates, bonuses, profit sharing, holiday leaves, dismissals, and plant expansions and closings. The European Union requires even small enterprises to inform and consult employees about a range of business, employment, and work organization issues.²⁸ In Sweden, labor plays a significant role in shop-floor decisions and participates in such issues as product quality standards and how to organize the factory for greater efficiency and safety. In Sweden and Germany, labor participation in management may be mandated, and workers often sit on corporate boards, a practice known as **codetermination**.²⁹ By contrast, in South Korea, the United Kingdom, and the United States, relations between management and labor unions are often adversarial.

Codetermination

An industrial relations practice in which labor representatives sit on the corporate board and participate in company decision making.

Cost, Quality, and Productivity of Labor

Worker wages vary greatly worldwide. So do the quality and productivity of worker efforts. Advanced economies tend to pay relatively higher wages. Hourly wages are particularly high in Northern Europe. Lower wages in emerging markets and developing economies are commensurate with the lower costs of living in those countries. Firms typically pay wages consistent with what local living standards and market conditions require.

Exhibit 17.8 displays the typical hourly wage rates of manufacturing workers in various countries. Firms from the advanced economies usually prefer to manufacture their products in countries with lower wages. Since 2016, U.S.-based multinational enterprises (MNEs) have eliminated more than 500,000 jobs in the United States. Some of the jobs were lost to automation, but many others were shifted abroad. During the same period, U.S. MNEs have created more than one million jobs in Asia, Latin America, and other regions with abundant low-wage workers. The most popular destinations for creating jobs include China, India, Brazil, and Mexico. In total, U.S. companies employ more than 26 million employees in their foreign operations around the world. More than 1 million people work for U.S. firms in the United Kingdom. In each of France and Germany, more than 500,000 locals work for U.S.-based firms.³⁰

When firms hire workers abroad, they consider quality and trainability of labor as well as wage rates. Well-educated and skilled labor pools are scarce in some countries. Low productivity, poor work quality, and the cost of training offset some of the benefits of paying low wages. Firms must consider wages in the context of worker productivity. All else being equal, a worker in Romania who is paid half the wage of a comparable worker in Germany but is only half as productive provides no additional value. When outsourcing work to foreign suppliers, managers must ensure that worker productivity in the host country meets acceptable levels. Firms may outsource or offshore work abroad only to discover the local level of productivity is less than expected.

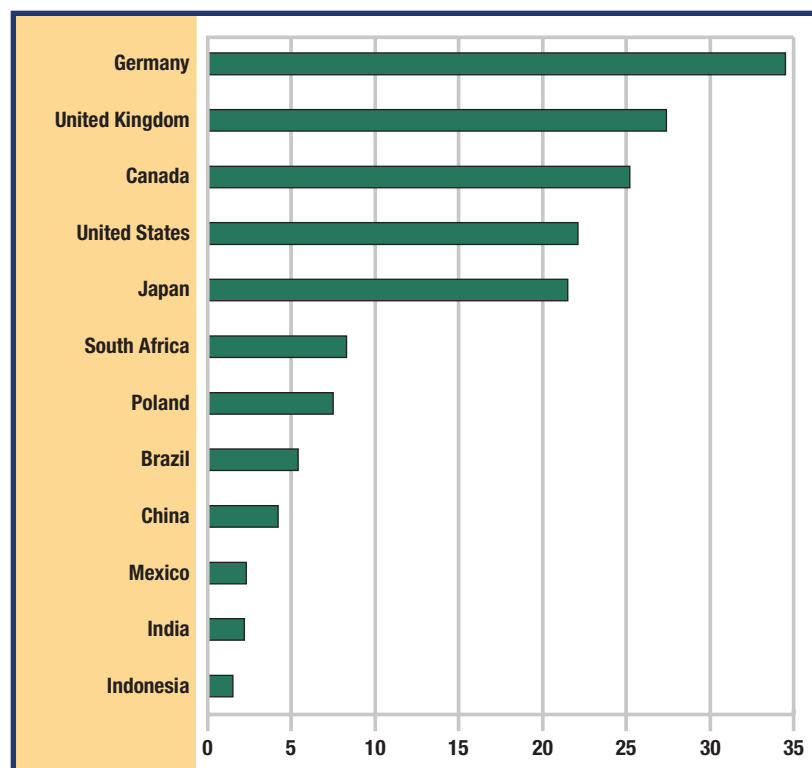
Workforce Reduction and Employee Termination

When firms experience downturns or rising input costs, they may resort to workforce reduction to maintain profitability. During the most recent global economic recession, deteriorating conditions forced many firms to lay off workers. General Motors (GM) closed an auto plant in each of Australia and South Korea as part of restructuring global operations. Closure of the GM Holden factory in Adelaide led to the loss of 1,600 jobs, which were transferred to lower-cost plants abroad. Closure of the GM Gunsan plant in South Korea resulted in the loss of about 2,000

EXHIBIT 17.8

Wage Rate of Manufacturing Labor, in U.S. Dollars per Hour

Sources: Euromonitor International, "Wages per Hour in Manufacturing," www.euromonitor.com; "Eurostat: Hourly Labour Costs," 2018, ec.europa.eu; International Labour Organisation, "Statistics and Databases," 2018, www.ilo.org; Organisation for Economic Co-operation and Development, "Hourly Earnings, Manufacturing," 2018, www.oecd.org; World Bank, "Doing Business 2018," www.doingbusiness.org.



jobs.³¹ Automation and the growth of Amazon, Alibaba, and other online retailers will result in the loss of millions of jobs in the brick-and-mortar retailing sector in coming years. Traditional retailers have laid off workers to streamline operations and counter growing competition from online vendors. Women represent the majority of retail cashiers, and their jobs are especially vulnerable to the automation of retailing operations.³²

Laying off workers (or making them redundant, as it is called in some countries) requires management to consider various factors, including local norms, regulations, and labor unions. Local custom obligates firms in Japan to avoid layoffs or find positions for dismissed workers in supplier organizations. Most European countries restrict firms' ability to lay off workers.

International human resource and legal managers need a full understanding of local country labor and worker dismissal laws and regulations. In the United States, declaring bankruptcy enables a firm to decrease the number of employees more easily. Auto parts manufacturer Delphi Corporation gained concessions from the United Auto Workers union on wages, benefits, and plant closings. Delphi reduced hourly wages from approximately \$27 to \$16 per hour. New regulations in the European Union (EU) aimed at reducing air pollution have led to the closing of dozens of coal-fired plants. The plant closures led to termination of thousands of jobs and a radical transformation of the EU energy sector.³³

Many countries require *just cause* to terminate an employee. In most cases, just cause is satisfied if the employee becomes permanently disabled, is terminated within a probationary period (usually one to six months), or is found guilty of incompetence, theft, or disclosure of confidential information. If the firm cannot demonstrate just cause, local courts may require it to pay substantial compensation to the employee upon termination. In most countries, the employee is considered the weaker party; thus, ambiguous cases are usually settled in the employee's favor.³⁴

International Labor Trends

Labor is increasingly mobile across national borders thanks to the growing integration of national economies, the rapid expansion of multinational firms, and the rise of international collaborative ventures. As more countries liberalize their economies, many governments are eliminating or reducing protectionist policies that restrict work permits for foreigners.

Many countries are seeing an influx of immigrants, both legal and illegal, who compete with established workers. They provide low-cost labor. Knowledge workers also flock to other nations, seeking work in specialized fields. Recent economic distress drove thousands of skilled professionals from Europe to Australia, Asia, and the Americas. Greece, Ireland, Spain, and Portugal saw thousands of their workers depart for such destinations. Thanks to a construction boom, Brazil lured engineers, architects, and other specialists to help carry out housing, energy, and infrastructure projects. The Brazilian government subsidized much of this construction. Australia has proven an attractive destination to workers from Greece and other European countries.³⁵ Many nations, especially those with labor shortages or rapidly growing economies, loosen entry requirements to encourage legal immigration. Persian Gulf countries have long retained large labor pools from abroad. By contrast, Japan discourages worker immigration, a policy that, combined with a low birth rate and aging population, likely will result in labor shortages.

Formation of global alliances by national labor unions is another recent trend. To help counter weakening union power, labor organizations have lobbied supranational organizations, such as the International Labour Office (a United Nations agency), to require MNEs to comply with labor standards and practices worldwide. Some national labor unions are joining forces with unions in other countries, forming global unions to equalize compensation and working conditions for workers in different geographical areas. Subsidiaries of European firms in the United States have signed union-organizing agreements that compel their U.S. units to comply with European labor standards.³⁶ A few unions have succeeded in creating global agreements that affect all the subsidiaries of numerous MNEs. The UNI Global Union represents 900 unions with 20 million members around the world. Firms that have signed global agreements with the UNI include Carrefour (France), H&M (Sweden), Metro AG (Germany), and Telefonica (Spain).³⁷

Firm Strategy in International Labor Relations

Labor relations differ markedly around the world. Many MNEs delegate the management of labor relations to their foreign subsidiaries. However, this can be a mistake because of the potential *global* impact of labor relations in any one country. Cross-border linkages give rise to complex interactions



Source: rawpixel/123RF

A multicultural workforce helps the firm develop a global mind-set and achieve international goals more effectively.

among differing national labor systems. Wage levels or labor unrest in one country affect the firm's activities in other countries. For example, a strike by 500 workers at an auto-parts factory in South Korea forced Hyundai to halt production temporarily of Santa Fe and Tucson sport utility vehicles, which the firm sells in North America. Yoosung Enterprise makes piston rings and other parts for Hyundai, General Motors, and Renault. A work stoppage threatened vehicle production and sales in various countries.³⁸ Because unions influence the cost of labor, productivity, worker morale, and firm performance, and because labor agreements made by foreign subsidiaries can create precedents for negotiations in other countries, managing labor relations on a global scale is often needed.

Skillful development and management of international human resource policies at headquarters helps ensure consistency. Many firms use a centralized information system on the company's intranet to provide continuous data on labor developments among subsidiaries. The approach helps managers anticipate

employee concerns and resolve potential threats in cross-national labor relations. It is often easier to negotiate with labor unions when they understand the challenges that confront the firm.

17.6 Describe diversity in the international workforce.

Diversity in the International Workforce

Highly developed MNEs embrace employees from diverse backgrounds and nationalities who bring vast knowledge and experience to the firm. Workers from various countries bring perspectives that management should leverage to perform better in markets worldwide. A multicultural workforce helps the firm develop a global mind-set, especially critical to companies with multinational ambitions.

Many internationally experienced personnel possess maturity and sophistication beyond that of employees who lack such experiences. International experience tends to enhance:

- Cross-cultural awareness and sensitivity
- Ethical understanding and reasoning
- Confidence, initiative, and independence
- Analytical thinking
- Problem solving and crisis management skills
- Oral and written communication skills, including foreign language ability
- A greater ease of traveling on foreign assignments

Obtaining substantial international experience, whether as an employee or a student, enhances prospects for an interesting career.

Women in International Business

Organizational effectiveness is strongly correlated with gender diversity. Companies benefit from gender diversity in leadership positions. Country culture, traditions, and regulations impose various roles on men and women. Some restrict women to a limited set of work roles and grant them fewer legal rights than men. In traditional societies, women are usually economically dependent on men. In Latin America, employers might consider a woman's marital status in hiring. Some firms avoid hiring young married women with no children on the assumption that they will soon leave to start families. In Asia and the Middle East, female managers are sometimes mistaken for the wife or secretary of a male manager. In other countries, women have limited opportunities to work outside the home or advance their own economic interests.

Growing trade and investment have created vast employment opportunities for people in emerging markets and developing economies. The shifting nature of the work place is helping to reshape lives and change traditional hierarchies across the world, especially for women. Many more MNEs,

retailers, and suppliers are offering their female workers educational programs in everything from hygiene and health to child-rearing and personal financial management. For example, the clothing retailer Gap offers programs to women to develop workplace skills as well as life skills such as financial knowledge. More programs are needed that provide child-care support so that women have better access to work. Reproductive health services can help women plan for families and have healthy babies. Vital Voices Global Partnership is a nongovernmental organization that works with emergent women leaders in developing economies to provide them with mentorship and other support to advance their careers. Such programs are empowering, but many challenges remain. Much more progress is needed for women to attain status equivalent to men around the world.

The global consultancy McKinsey found that, in 2017, women represented 50 percent of the world's working age population but generated only 37 percent of gross domestic product. Female senior managers in international business are still more the exception than the norm. Exhibit 17.9 presents the average proportion of senior management positions held by women. The exhibit is based on findings of a survey of more than 10,000 senior executives in firms worldwide. Representation by women in senior management is highest in Russia and the Philippines. Among senior positions, women worldwide work most often as human resource directors and chief financial officers.³⁹

Numerous countries face a shortage of labor and managerial talent. In most of the world, women remain unemployed or underemployed. For example, while they make up about half of the world's higher-education graduates, only 25 percent of women occupy management positions on average. The entry of more women into the labor force benefits countries that are facing labor shortages due to aging populations and other trends. Exhibit 17.9 suggests that women do not have equal access to senior management positions. Even in the advanced economies, they are sometimes not afforded the same opportunities for education and training as their male colleagues. Although evidence suggests just as many women seek international positions as men, relatively few are asked to fill expatriate positions.⁴⁰

There are several reasons for this. First, senior managers may assume women do not make suitable leaders abroad or that foreign men do not like reporting to female managers. Firms hesitate to send women to countries where traditional gender roles are the norm. Even obtaining a work visa can prove problematic in some male-dominated countries. In many countries, male

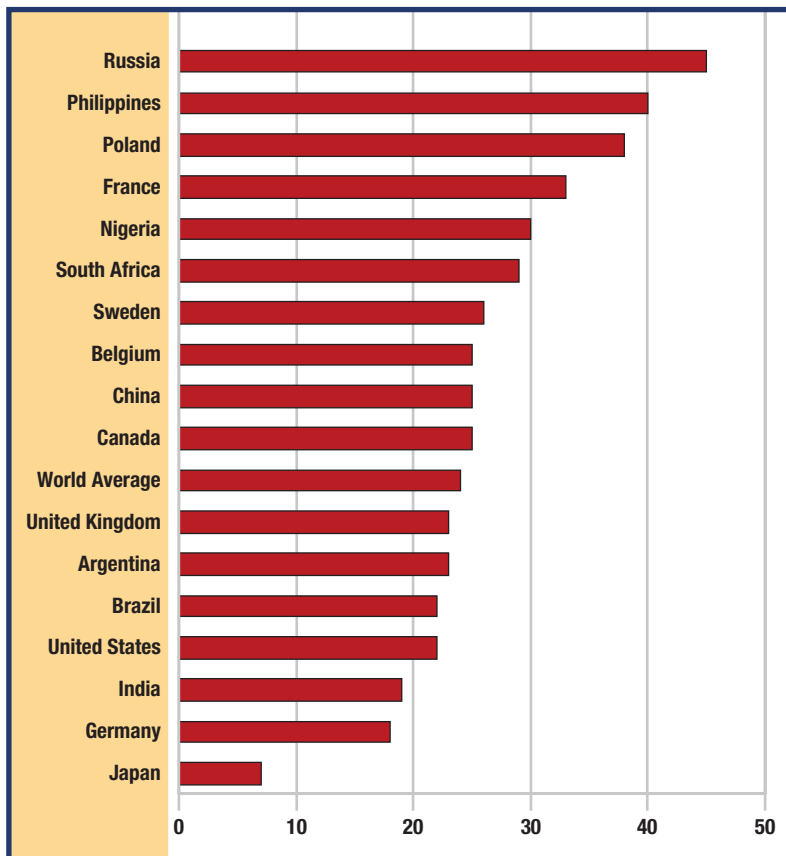


EXHIBIT 17.9

Average Percentage Share of Senior Management Positions Held by Women

Sources: Based on Lone Christiansen et al., "Gender Diversity in Senior Positions and Firm Performance: Evidence from Europe," IMF Working Paper, International Monetary Fund, 2016, www.imf.org; Grant Thornton International Ltd., "Women in Business: New Perspectives on Risk and Reward," March 2017, www.grantthornton.global; Grant Thornton International Ltd., "Women in Business: Beyond Policy to Progress," March 2018, www.grantthornton.global.



Source: Sabanci Holdings

Guler Sabanci, Sabanci Holding, is a visionary leader promoting the role of women in the contemporary business enterprise. She is included in *Forbes's* World's Most Powerful CEOs.

managers drink together, go to sports events, or enjoy nightlife. Some women feel uncomfortable in such all-male settings.⁴¹

Having children and other family obligations can disrupt career paths. Although flexible and part-time work policies are often beneficial to women's progress up the corporate ladder, many firms do not provide such opportunities. Finally, because women currently occupy relatively few senior management positions (in Europe, they hold only 15 to 25 percent of senior executive posts), there are fewer women with sufficient experience to send abroad for important positions.

Yet the situation for working women is improving. In the advanced economies, more women are in the workforce than ever before. In the European Union, women have filled the majority of new jobs created since 2000. In the United States, unemployment rates are lower for women than for men. Better-educated women are more likely to obtain jobs.⁴²

Visionary leaders such as Guler Sabanci, chairwoman of the Board of Directors at Sabanci Holding, Turkey's large family conglomerate, can make a big difference in elevating the contributions of female employees. She comments: "The most prominent and foreseeable trend of this century is the fact that women are becoming more participative in every part of society and business. Research shows that women have been present in business and government in the past decade more than any time in the past ... Gender equality is very important at every level of our organization at Sabanci Group. We believe this equality should be present not only during recruitment, but also in benefits, training-development, and promotions. This is one of the key competitive advantages of organizations going forward."⁴³

Many more women are obtaining university degrees in business. They account for 50 percent or more of students in graduate business programs in Europe and the United States. About half the recruits who join European firms are female university graduates. In the United States, 140 women enroll in higher education each year for every 100 men. In Sweden, the rate is as high as 150.⁴⁴ Businesswomen increasingly form their own networks. In the United Kingdom, a group of women established *Women Directors on Boards*, which improves prospects for women to reach top management jobs. The *Association of Women in International Trade* is a U.S. organization that promotes the interests of women working in international business (www.wiit.org).

In the European Union, proposed legislation would require women to occupy at least 40 percent of seats on the corporate boards of publicly listed companies by 2020. However, a similar law passed in Norway in 2003 has had very little effect on increasing the number of women in business generally. Women in management are especially valued for their intellectual stimulation, inspiration, participative decision making, people development, and serving as role models.⁴⁵

IHRM and Corporate Social Responsibility

Corporate actions affect employees, whether they work directly or indirectly for the firm. Corporate social responsibility (CSR) means the firm should be responsive to all its stakeholders and operate in socially acceptable ways, including when hiring, contracting with, and managing employees.

Apparel and footwear company Nike (www.nike.com) outsources nearly all its production to foreign contractors. Nike relies on many suppliers that employ more than 1,000,000 workers, especially in Vietnam, Indonesia, and China. Nike had been accused of not caring enough about the welfare of its contract workers abroad. In the early 1990s, employees in some Nike factories in Asia were paid wages insufficient to sustain basic nutritional needs. Some plants operated like *sweatshops*, where workers labored long hours in difficult conditions. Nike executives deflected the accusations by arguing that because Nike did not own the factories, it was not responsible for conditions in them. However, Nike became a target for anti-globalization and anti-sweatshop movements.

To understand the situation better, Nike systematically assessed its suppliers' foreign factories. Management developed CSR goals to integrate corporate responsibility and sustainability into business strategies and long-term growth. Nike began to demand better working conditions from its suppliers. It set benchmarks to improve labor conditions and eliminate long work hours. It developed auditing tools to measure compliance with new labor standards and approved supplier plans to invest in worker development and ensure that its standards were followed.

Nike began requiring suppliers to meet minimal environmental, health, and safety standards. Today, Nike examines country-level factors such as quality of infrastructure, human rights, and economic and political conditions and aims to ensure that factory workers are paid fair wages. Nike has been working hard to meet its CSR.

In 2018, several Nike executives resigned amid charges that the firm had failed to achieve goals regarding gender equity and compensation. A group of female Nike employees circulated a survey that suggested senior male managers had engaged in discrimination and other inappropriate behavior at the company. In response, Nike developed plans to place more women and minorities in leadership positions.

Sources: Shelly Banjo, Patrick Barta, and Ben Otto, “Inside Nike’s Struggle to Balance Cost and Worker Safety,” *Wall Street Journal*, April 22, 2014, pp. A1, A12; David Doorey, “The Transparent Supply Chain: From Resistance to Implementation at Nike and Levi-Strauss,” *Journal of Business Ethics* 103, No. 4 (2011), pp. 587–603; Abigail Hess, “How an Informal Survey of Women at Nike Led Two Top Executives to Resign,” *CNBC*, March 20, 2018, www.cnn.com; Tiffany Hsu, “Nike Executive Resigns; C.E.O. Addresses Workplace Behavior Complaints,” *New York Times*, March 15, 2018, www.nytimes.com; Peter Lund-Thomsen and Neil Coe, “Corporate Social Responsibility and Labour Agency: The Case of Nike in Pakistan,” *Journal of Economic Geography* 15, No. 2 (2015), pp. 275–296; Nike, “Global Manufacturing,” 2015 company information, www.nike.com; Helen Zhao, “Nike HR Chief Says Company ‘Has Failed’ to Hire and Promote More Women and Minorities,” *CNBC*, April 4, 2018, www.cnn.com.

A survey by Mercer Human Resource Consulting (www.mercer.com) found that companies are substantially increasing the number of women on foreign assignments. About half the surveyed firms believe the number of female expatriates will continue to rise. At the same time, 15 percent of companies said they would not send women to male-oriented locations such as the Middle East. The survey included more than 100 multinational companies with nearly 17,000 male and female expatriates.⁴⁶

Success Strategies for Women Managers in International Business

Several companies aim to hire minorities, women, and people from varied cultural backgrounds. In many countries, being a female expatriate can be an advantage for developing and leveraging strengths as a woman and as a manager. In the long run, managerial competence wins out over prejudice.⁴⁷

Many women have found ways of overcoming senior management bias against sending females abroad. Obtaining foreign assignments is easier if you speak a foreign language or have other international skills. Substantial experience as a domestic manager or in short international assignments improves prospects for working abroad. Garnering strong support from senior management increases credibility. Once abroad in traditional societies, most women report the first reaction of surprise is often replaced by professionalism and respect. Some female graduates highlighted in the “You Can Do It: Recent Grads in IB” feature in this book fit this trend.

Firms help ensure that women achieve greater equality in international business in various ways:

- Provide training programs to develop female managerial talent.
- Fill leadership roles in foreign assignments with qualified women.
- Fill a minimal percentage of senior international executive posts with female employees.
- Set targets for the number of women on executive boards.
- Have female executives serve as mentors and role models for aspiring women.

In addition, many firms have restructured promotion practices to accommodate workers raising children. Most firms in Germany and Sweden offer flexible work hours, allowing employees to arrange schedules around children’s needs. Leading firms understand the need to forge a new standard of diverse and internationally successful female managers. Organizations such as Accenture, Ernst & Young, and Vinson & Elkins all sponsor programs that assist women to advance in the global workplace.

MyLab Management Watch It! 2

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise titled Root Capital Human Resource Management and Operations.

CLOSING CASE

Sony's Human Resource Strategies

The Japanese electronics giant, Sony, employs 130,000 people worldwide. Sony makes and markets PlayStation home video game systems, televisions, digital and video cameras, laptop computers, personal music players, and semiconductors. Japan accounts for about one-third of Sony's annual sales. Europe and North America account for another 20 percent each. China and other Asian countries generate 10 percent each. Remaining sales come from the rest of the world. The firm has several entertainment divisions, including Epic and Sony Pictures Entertainment. Sony has plants in China, Japan, Malaysia, Mexico, Spain, and the United Kingdom.

Recent challenges facing Sony include the impact on sales of the strong yen, cyber threats, and strong competition. PlayStation faces serious competition from Nintendo and Xbox. Amazon's Kindle and iPad put the Sony Reader out of business. The iPod and iPhone have displaced Sony's music-player business. Slowing sales of smartphones and other mobile devices in emerging markets have hurt Sony's semiconductor business.

The Manufacturing Workforce

In the past decade, senior management has substantially reorganized Sony. It has closed more than a dozen factories, cut 20,000 jobs, and shifted component and product manufacturing to low-cost countries. Sony tries to maintain strong labor relations and tries to avoid worker layoffs. Factories in the United Kingdom manufactured cathode-ray tubes. These components became obsolete with introduction of the flat-screen TV. Sony worked with unions to create enhanced severance packages and find new job opportunities for many employees. Management successfully restructured the plants to produce high-definition broadcast cameras. Sony built strong customer relationships, developed talent, created a new corporate culture, and aligned employees to the new strategy. The plants reinvented themselves by emphasizing best-in-class efforts to achieve preferred supplier status.

Sony's numerous plants and R&D centers in China employ many expatriates. China's attractions are its low-cost labor and superior worker skills, particularly for high-tech projects. Sony's R&D center in northern China employs more than 20,000 software engineers. Nearby universities and technical institutes churn out thousands of engineering graduates each year. The high concentration of foreign firms in China (including Dell, Hitachi, IBM, and NEC) has created significant competition for local talent.

Human Resource Philosophy

Sony has a highly developed approach to international human resource management. When recruiting new employees, executives seek candidates who have an entrepreneurial spirit, think creatively, and have strong communications skills. Sony's former chairman, Norio Ohga, was also an opera singer, an orchestral conductor, and a licensed jet pilot. His education in music and the

arts, alongside science and engineering, strongly influenced the development of the firm's most successful products. In all areas, Sony encourages employees to structure their roles to make best use of their individual strengths.

In Sony's foreign subsidiaries, human resource managers spend time with executives and employees, linking the firm's objectives and strategies to employee capabilities. Senior managers identify key jobs for realizing the firm's objectives and analyze whether they have the best people in the most strategically important jobs and what talent they need to acquire.

When Sony Europe had to reinvent itself, the human resource group focused on identifying and leveraging the key strengths of managers to enhance corporate performance. The firm introduced mentoring projects that encouraged employees to focus on what they do best and maximize their contribution to increasing firm performance.

Training and Talent Development

Sony offers management trainee programs for its most promising recruits. Trainees are counseled to follow their passions and use their distinctive talents to advance the firm. They complete formal courses and training tailored to individual demands and career aspirations. The firm established a mentoring and coaching network across all its talent pools. Executives coach their potential successors, who in turn act as mentors to younger upper-management candidates.

Sony develops global managers and does succession planning for top management jobs. Senior management grooms executives with strong analytical and intellectual qualities who are driven and not shy about taking risks. Programs stress visionary leadership, emotional intelligence, people skills, and the ability to influence others.

Sony implemented an extensive talent pipeline running vertically through the organization, developing and supporting high-potential employees from entry level all the way to senior levels of the firm. Management has a system of exhaustive interviews and assessments for identifying potential talent within Sony's own ranks. Executive candidates must be fluent in English and two other languages, have significant international experience, and possess the drive and ambition to take on international leadership roles.

Senior managers are required to scan the employee pool continuously to identify and groom potential talent. Recently the firm, long bound by its Japanese culture, launched initiatives to groom more English-speaking executives as a way to transform itself and remain on the cutting edge. Former CEO Howard Stringer appointed numerous non-Japanese leaders who are much younger than the traditional, seasoned Japanese management. Having a non-Japanese CEO helped shift the firm toward a geocentric staffing policy.

Corporate Social Responsibility

Sony pursues an integrity approach to foreign manufacturing operations and attempts to maintain workplace standards that exceed

local requirements. As the firm expands internationally, management knows that actions today may be crucial for entry to new markets tomorrow. Exploiting low workplace standards in one country can ruin a reputation and jeopardize entry to new markets. Sony learned a lesson from its experiences in Mexico, where human rights groups accused it of violating worker rights.

Rather than simply following local standards in host countries, MNEs should strive to develop global standards for company

operations. Sony has taken steps to standardize workplace norms so that management can benchmark internal performance, transfer expertise among countries, and apply holistic, cohesive planning and practices in operations worldwide. Sony is aiming for a universal employment standard, offering superior working conditions and locally relevant wages and benefits at all locations. Wages in foreign factories should provide a fair standard of living to all workers.

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Analytical Thinking, Diverse and Multicultural Work Environments, Reflective Thinking, Application of Knowledge, and Interpersonal Relations and Teamwork

Case Questions

- 17-4.** Traditionally, Japanese MNEs followed an ethnocentric orientation in international staffing, in which managers from headquarters held key subsidiary positions. Sony is shifting away from this model. What approach should Sony follow for staffing its subsidiaries? When recruiting expatriates for foreign operations, what characteristics should Sony emphasize to ensure that its managers are adept at living and working abroad?
- 17-5.** Sony faces challenges in finding suitable talent for its operations in China and Europe. What steps should it take to ensure that it has an adequate pool of international managers and other talent for worldwide operations? What should Sony do to promote global mind-sets?
- 17-6.** What is your view of Sony's training efforts? What steps could Sony take to improve its training in light of its multi-country operations?
- 17-7.** Sony has experienced labor relations problems in Indonesia and elsewhere. What strategies should management follow to improve labor relations? What can it do to reduce the number and severity of labor difficulties the firm might face in the future?

- 17-8.** What is your view of Sony's efforts at corporate social responsibility (CSR) in international operations? What steps can Sony take to improve CSR in organizing and managing its operations around the world, particularly in developing countries and emerging markets?

Sources: Ishneet Dhillon and Sonam Gupta, "Organizational Restructuring and Collaborative Creativity: The Case of Microsoft and Sony," *IUP Journal of Business Strategy* 12, No. 1 (2015), pp. 53–65; Hoover's profile of Sony, 2018, www.hoovers.com; Kana Inagaki, "Sony Chief Executive Outlines Long-Term Profit Strategy," *Financial Times*, May 23, 2017, www.ft.com; Marketline, "Company Profile: Sony Corporation," March 6, 2017, www.marketline.com; Brian Oloo and Edwin Oloo, *Microsoft vs. Sony: The Battle for the Millennials* (Amazon Digital Services, 2016), www.amazon.com; Richard Siklos, "Sony: Lost in Transformation," *Fortune*, July 6, 2009, p. 68; Jonathan Soble, "Sony's Fortunes Improve, from Rising Profit to a Return for Aibo," *New York Times*, November 1, 2017, www.nytimes.com; Sony Corporation, "Developing and Deploying Core Human Resources Capable of Excelling Globally," August 23, 2017, www.sony.com; Daisuke Wakabayashi and Yoshio Takahashi, "Sony's New CEO Vows to 'Revive' Company," *Wall Street Journal*, April 13, 2012, p. B4; Works Management, "Sony Workers Rally After Site Is Torched in London Riots," September 2011, p. 7.

END-OF-CHAPTER REVIEW

MyLab Management

Go to www.pearson.com/mylab/management to complete the problems marked with this icon ★.

Key Terms

area studies 523
codetermination 529
collective bargaining 528
cross-cultural awareness 524
cultural intelligence 523
culture shock 523

expatriate 519
expatriate assignment failure 523
global talent pool 525
host-country national (HCN) 519
international human resource management (IHRM) 518

parent-country national (PCN) 519
performance appraisal 526
practical information 524
repatriation 524
third-country national (TCN) 519

Summary

In this chapter, you learned about:

- **The strategic role of human resources in international business**

International human resource management (IHRM) is the selection, training, employment, and motivation of employees for international operations. IHRM is more complex than its domestic counterpart. The firm must develop procedures, policies, and processes appropriate for each country where it does business. A **parent-country national (PCN)** is an employee who is a citizen of the country where the MNE is headquartered. A **host-country national (HCN)** is an employee who is a citizen of the country where the MNE subsidiary or affiliate is located. A **third-country national (TCN)** is an employee who is a citizen of a country other than the home or host country. An **expatriate** is an employee who is assigned to work and reside in a foreign country for an extended period, usually a year or longer. There are six key tasks in IHRM: international staffing policy; preparation and training of international employees; international **performance appraisal**; compensation, including formulation of benefit packages that vary from country to country; international labor relations; and managing diversity in the international workplace.

- **International staffing policy**

IHRM managers determine the ideal mix of employees to work in the firm's subsidiaries and affiliates abroad. Managers best suited for working abroad typically have technical competence, self-reliance, adaptability, interpersonal skills, leadership ability, physical and emotional health, and, if present, a family prepared for living abroad. **Expatriate assignment failure** is the unplanned early return home of an employee or the failure of an expatriate to function effectively abroad. It is not unusual for expatriates to experience culture shock.

- **Preparation and training of international employees**

Proper training and orientation of managers improves firm performance. Training for foreign assignments includes **area studies**, **practical information**, and **cross-cultural awareness**. Training includes methods such as videos, lectures, readings, simulations, and field experience. Acquiring language skills provides managers with numerous advantages. **Repatriation** is the return of the expatriate to the home country and requires advance preparation. Training is also important for the nonmanagerial workforce abroad.

- **Performance appraisal and compensation of international employees**

International performance appraisals involve providing feedback on how well employees are doing their jobs, identifying problems and areas where more training is needed, and providing a basis to reward superior performance. Firms must develop systems to measure foreign unit performance. Various factors in the foreign environment can impede effective performance appraisal. Compensation packages vary internationally because of differences in legally mandated benefits, tax laws, cost of living, local tradition, and culture. Expatriates expect to maintain their usual standard of living, which can be costly in some locations. Typical expatriate compensation includes four components: base salary, benefits, allowances, and incentives. Tax equalization must be considered because expatriates may face two tax bills for the same pay, from the host and home countries.

- **International labor relations**

MNEs employ many nonmanagerial employees abroad, often represented by *labor unions*, to work in factories and perform other tasks. Management must ensure effective labor relations and take care when reducing the workforce. Along with the cost of labor, the quality and productivity of the workforce are important considerations. **Codetermination**, the participation of workers on boards of directors, is common in some countries. Labor unions are sometimes at odds with the realities of global competition and the influx of immigrants in many countries. Leading MNEs establish an information system on labor developments, communicate with all employees, and formulate a standard policy on employment and working conditions worldwide.

- **Diversity in the international workforce**

Experienced MNEs include people from diverse backgrounds, nationalities, and gender who bring a wealth of experience and knowledge to addressing the firm's problems and opportunities. Employee cultural diversity increases the complexity of interaction. Success comes from understanding and accepting differences and then using them to enhance planning, strategy, and the firm's operations. In most countries, female managers in international business are still somewhat rare. Firms can take several steps to ensure that women achieve more equality in international business.

Test Your Comprehension

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Ethical Understanding and Reasoning, Diverse and Multicultural Work Environments, Reflective Thinking, and Application of Knowledge.

- 17-9.** What is international human resource management (IHRM)? Why is it important to internationalize firms? What is the role of IHRM in company strategy?
- 17-10.** Under what circumstances would an MNE staff itself with (a) parent-country nationals, (b) host-country nationals, and (c) third-country nationals?
- 17-11.** What is expatriate assignment failure? Provide a suitable example.
- 17-12.** What are the benefits of delivering cross-cultural training to expatriates?
- 17-13.** What is the value to an organization of maintaining a global talent pool?
- 17-14.** What are incomparable outcomes in the context of international performance evaluations? Give a suitable example.
- 17-15.** Why are performance appraisals more problematic in the international context?
- 17-16.** What are some key trends affecting international labor?
- 17-17.** What measures can firms take to enhance the prospects of placing women in international business jobs?

Apply Your Understanding

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Written and Oral Communication, Ethical Understanding and Reasoning, Diverse and Multicultural Work Environments, Reflective Thinking, and Application of Knowledge.

- 17-18.** Your business is involved in development of smartphone apps to solve problems in local markets. In one country, the apps might address the problems of finding rental accommodation, in others it might call taxi cabs and pay the fare online. In many cases the problem to be solved has been identified using search engines and by looking at online newspapers that mention a particular market-based issue. This approach has led to long delays in the identification and the development of smartphone apps. A new approach is needed, and the proposed solution is to identify a country and then embed a technology-savvy group of locals into a development team. As the new international HR strategist for the business, you need to suggest how you might identify and recruit these individuals.
- 17-19.** Global Wannabe (GW), a manufacturer of musical instruments, is eager to internationalize. New to international business, within the coming four years, senior management wants GW to generate at least one-third of its sales from abroad by establishing foreign marketing subsidiaries and production bases in low-cost countries to cut manufacturing costs. GW's president, Larry Gerber, has appointed you to the task force charged with recruiting managers who can run GW's operations abroad. What guidelines would you offer to GW to recruit and select expatriates while avoiding the problem of expatriate assignment failure and evaluating the performance of employees posted abroad?
- 17-20.** *Ethical Dilemma:* You work in the garments industry for a large retail chain with stores across Europe, North America, and the Pacific region. Your business is headquartered in Madrid, Spain, but the company only has very flimsy connections to Spain. It has always been a multinational organization; in fact, the first stores were opened in Malaysia, Japan, and Hong Kong. Uncharitably, your brand of garments falls into the "disposable fashion" category, which means that you sell trending fashions at low prices with the expectation that customers will only wear the garments for a limited period before moving on to the latest designs. This approach means two things: first, the garments need to be produced at the lowest prices, and second, they need to be manufactured and distributed within days to catch the next trend. Your business has been criticized for their choice of location for manufacture. Most of the garments are made in Guatemala, Ethiopia, and Bangladesh. These countries have a reputation for cheap garment manufacture largely based on low wages, long working hours, and poor working conditions.
In response, you intend to focus on one country for manufacture and attempt to impose changes on your suppliers. You have chosen Bangladesh. Examine the garment industry and recommend ways in which improvements can be implemented at low cost without adversely impacting on your profit margin. Using the ethical framework and other material in Chapter 4 as a guide, what types of ethical problems might arise in getting involved at this level? What should the business do if changes are not possible? Justify your answer.



INTERNET EXERCISES

Access globalEDGE™ at www.globalEDGE.msu.edu

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Written and Oral Communication, Analytical Thinking, Information Technology, Diverse and Multicultural Work Environments, Reflective Thinking, and Application of Knowledge

- 17-21. Lifestyle factors such as the cost of living vary world-wide. One job of international human resource managers is to develop appropriate compensation packages for managers working abroad. The U.S. Department of State provides information firms can use to calculate compensation around the world. Prepare a report on the factors relevant to developing a compensation package for expatriates working in Prague and Tokyo, including *Living Costs Abroad*, by accessing the State Department through globalEDGE™ (keywords “travel/living abroad”) or directly at aoprals.state.gov.
- 17-22. Stryker Inc. manufactures medical devices and wants to establish a factory in continental Europe. For the location, management must decide between France, Germany, and Poland. You have been assigned to research and recommend the best country from the three choices. Management prefers the country with the best overall profile of productive and low-cost workers. Good data sources for your research are the U.S. Bureau of Labor Statistics (www.bls.gov), the European Commission (<http://ec.europa.eu>), and the OECD (www.stats.oecd.org). Prepare a recommendation on which country—France, Germany, or Poland—would be the best choice to locate the factory. (Note: Such decisions are normally much more complex than implied here, but a preliminary analysis is a starting point for decision making.)
- 17-23. Expat.com (www.expats.com), International Business Center (www.international-business-center.com), Global Affairs Canada (www.international.gc.ca/international/index.aspx?lang=eng), and other sites provide information for traveling managers and expatriates on how to live and do business in various countries. Suppose that you work for Virgin, the British airline, and are assigned to work in Virgin’s office in an emerging market (choose an emerging market such as Argentina, India, Mexico, South Africa, or Turkey). You need to learn how to be effective in dealing with customers and colleagues in the chosen country. Select three topics (for example, making appointments, business dress guidelines, gift giving), and prepare an executive summary on how to behave regarding the topics you selected for your chosen country. Visit the above sites directly, or enter the keywords “travel/living abroad” at globalEDGE™.

CKR Tangible Process Tool Exercise™

Evaluating International Locations for Quality of Life

Companies establish subsidiaries around the world to manage foreign operations. Globalization means that more companies are transferring their employees abroad. MNEs may require employees to live and work abroad for long periods. For managers and their families, expatriate life can be stressful, leading to occasional assignment failures. A manager may leave the company if assigned to an undesirable location. The most experienced firms use a systematic approach to relocate employees abroad.

Employees are sometimes reluctant to relocate abroad unless life quality is satisfactory. Before moving employees to a given country, the firm should research and consider factors that ensure that transferred employees will succeed there. Success means the transferee remains in the new position and performs well.

In this exercise, you will (i) learn the important indicators used to assess the quality of life in various international locations, (ii) understand the types of information needed about living conditions abroad, and (iii) understand factors that firms consider when relocating managers abroad for establishing a regional headquarters or subsidiary.

Background

MNEs often require managers to live abroad for extended periods. An expatriate is a person who goes to live temporarily or permanently in a foreign country. Expatriates expect to maintain a living standard similar to the one they have at home.

Europe is one of the world's most attractive markets. Eastern Europe enjoys numerous advantages, including low-wage, high-quality workers. Many firms are anxious to relocate their employees to Europe. However, management need to make such moves carefully. A failed expatriate relocation harms the employee and is costly to the firm.

Numerous measurable features, such as commuting times, tax rates, and housing cost can affect the expatriate's move to a foreign city and the ease of settling in. The firm should consider quality of life factors that will help ensure the transferee and family assimilate and achieve a comfortable lifestyle.

In this exercise, assume that you work for a company that is relocating management staff to Europe. Your task is to investigate three European cities as possible relocation destinations. Consider the quality of life for moving as an expatriate to each city. The task is not easy because there are shortcomings to every city, no matter how seemingly attractive. There are always trade-offs. Take Paris, France, for example. France is a power house in the European Union and has attracted much interest from foreign firms establishing operations abroad. Paris is a world hub of style and fashion and a popular tourist destination. However, the cost of living in Paris is high. The tax burden in France is substantial. Up to 60 percent of your gross pay may be diverted to the French government. During the winter months, Paris is gray and sometimes depressing. Parisians are sometimes rude to foreigners.

To complete this exercise, go to MyLab Management (www.pearson.com/mylab/management) and click on **Career Toolbox**.

Endnotes

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Glossary

Absolute advantage principle The idea that a country benefits by producing only those products it can produce using fewer resources.

Acculturation The process of adjusting and adapting to a culture other than one's own.

Acquisition Direct investment to purchase an existing company or facility.

Adaptation The firm's efforts to modify one or more elements of its international marketing program to accommodate specific customer requirements in a particular market.

Advanced economies Post-industrial countries characterized by high per capita income, highly competitive industries, and well-developed commercial infrastructure.

Agent An intermediary (often an individual or a small firm) that handles orders to buy and sell commodities, products, and services in international business transactions for a commission.

Antidumping duty A tax imposed on products deemed to be dumped and causing injury to producers of competing products in the importing country.

Arbitrageurs Currency traders who buy and sell the same currency in two or more foreign-exchange markets to profit from differences in the currency's exchange rate.

Area studies Factual knowledge of the historical, political, and economic environment of the host country.

Balance of payments The annual accounting of all economic transactions of a nation with all other nations.

Barter A type of countertrade in which goods are directly exchanged without the transfer of any money.

Bond A debt instrument that enables the issuer (the borrower) to raise capital by promising to repay the principal on a specified date (at maturity) along with periodic interest payments.

Born global firm A young entrepreneurial company that initiates international business activity very early in its evolution, moving rapidly into foreign markets.

Build-operate-transfer (BOT) Arrangement in which the firm or a consortium of firms contracts to build a major facility abroad, operate it for a specified

period, and then hand it over to the project sponsor, typically the host-country government or public utility.

Business process outsourcing (BPO) The outsourcing to independent suppliers of business service functions such as accounting, payroll, human resource functions, travel services, IT services, customer service, or technical support.

Buy-back agreement A type of countertrade in which the seller agrees to supply technology or equipment to construct a facility and receives payment in the form of goods the facility produces.

Capital flight The rapid sell-off by residents or foreigners of their holdings in a nation's currency or other assets, usually in response to a domestic crisis that causes investors to lose confidence in the country's economy.

Captive sourcing Sourcing from the firm's own production facilities.

Central bank The monetary authority in each nation that regulates the money supply and credit, issues currency, and manages the exchange rate of the nation's currency.

Code of conduct A document that translates the code of ethics into specific rules regarding behaviors and practices that are prohibited or required.

Code of ethics A document that describes the values and expectations that guide decision making by all employees in the firm.

Codetermination An industrial relations practice in which labor representatives sit on the corporate board and participate in company decision making.

Collective bargaining Joint negotiations between management and hourly labor and technical staff regarding wages and working conditions.

Commercial risk Firm's potential loss or failure from poorly conceived or executed business strategies, tactics, or procedures.

Common market A stage of regional integration in which trade barriers are reduced or removed; common external barriers are established; and products, services, and factors of production are allowed to move freely among the member countries.

Company-owned subsidiary A representative office of the focal firm that

handles marketing, physical distribution, promotion, and customer service activities in the foreign market.

Company sales potential An estimate of the share of annual industry sales that the firm expects to generate in a particular target market.

Comparative advantage Superior features of a country that provide unique benefits in global competition, typically derived from either natural endowments or deliberate national policies.

Comparative advantage principle It may be beneficial for two countries to trade with each other as long as one is relatively more efficient at producing a product needed by the other.

Compensation deals A type of countertrade in which payment is in both goods and cash.

Competitive advantage Assets or capabilities of a firm that are difficult for competitors to imitate. They are typically derived from specific knowledge, competencies, skills, or superior strategies.

Configuration of value-adding activity The pattern or geographic arrangement of locations where the firm carries out value-chain activities.

Consolidation The process of combining and integrating the financial results of foreign subsidiaries into the financial statements of the parent firm.

Consortium A project-based, nonequity venture initiated by multiple partners to fulfill a large-scale project.

Contagion The tendency of a financial or monetary crisis in one country to spread rapidly to other countries, due to the ongoing integration of national economies.

Contract manufacturing An arrangement in which the focal firm contracts with an independent supplier to manufacture products according to well-defined specifications.

Contractual entry strategies in international business Cross-border exchanges where the relationship between the focal firm and its foreign partner is governed by an explicit contract.

Corporate governance The system of procedures and processes by which corporations are managed, directed, and controlled.