CHAPTER 13

Managing Human Resources in an International Business

LEARNING OUTCOMES

After studying this chapter, you should be able to:

Explain how to improve international assignments through employee selection.

Answer the question, "What sort of special training do overseas candidates need?"

Discuss the major considerations in formulating a compensation plan for overseas employees.

Describe the main considerations in repatriating employees from abroad.

The Internationalization of Business

More and more Canadian-based companies are conducting their business in other countries. Huge global companies like Noranda, Labatt's, and Molson's have long had extensive overseas operations. Global changes such as the rapid development of demand in the Pacific Rim and other areas of the world means that business success depends on the ability to market and manage overseas. Of course, to foreign companies like Toyota, Canada is "overseas," and thousands of foreign firms already have thriving operations in Canada. Increasingly, companies must be managed globally, which confronts managers with several challenges.

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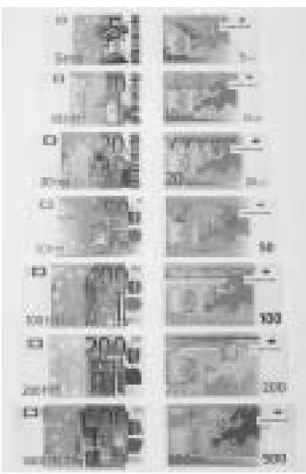
First, the number of their employees abroad has increased. With more employees abroad, HR departments have had to tackle new global challenges. Three broad global HR challenges that have emerged are as follows:[1]

- *Deployment*. Getting the right skills to where they are needed in the organization regardless of geographical location.
- *Knowledge and innovation dissemination*. Spreading state-of-the art knowledge and practices throughout the organization regardless of where they originate.
- *Identifying and developing talent on a global basis*. Identifying who has the ability to function effectively in a global organization and developing these abilities.[2]

Dealing with such challenges means that most employers have had to develop HR policies and procedures just for handling global assignments. From a practical point of view, one has to address issues such as:[3]

1. *Candidate identification, assessment, and selection*. In addition to the required technical and business skills, key traits to consider for global assignments include, for instance: cultural sensitivity, interpersonal skills, and flexibility.
2. *Cost projections*. The average cost of sending an employee and family on an overseas assignment is reportedly between three and five times the employee's pre-departure salary; as a result, quantifying total costs for a global assignment and deciding whether to use an expatriate or a local employee are essential in the budgeting process.
3. *Assignment letters*. The assignee's specific job requirements and associated pay will have to be documented and formally communicated in an assignment letter.
4. *Compensation, benefits, and tax programs*. There are many ways in which to compensate employees who are transferred abroad, given the vast differences in living expenses around the world.
5. *Relocation assistance*. The assignee will probably have to be assisted with such matters as maintenance of the person's home and automobiles, shipment and storage of household goods, and so forth.
6. *Family support*. Cultural orientation, educational assistance, and emergency provisions are just some of the matters to be addressed before the family is sent abroad.[4]

Among the many changes taking place in the international business arena is the introduction of the euro, a single currency used by the European Union since 1999.



HR Links
www.shrm.org/hrlinks/intl.htm

Expatriate Information About Living Abroad
http://idt.net/~sefco/expat.htm

Mobility Services International
www.msimobility.com

Expat Forum
www.expatforum.com

Canadian Chamber of Commerce in Hong Kong
www.cancham.org/home/home.html

That is just the tip of the iceberg. Cross-cultural, technical, and language training programs will probably be required. The complex and differentiated tapestry of labour laws and rules from country to country and provisions for re-assimilating the expatriate when he or she returns home are some of the other issues that must be addressed.

It is increasingly common for technology to be used to assist with global relocation. A WorldatWork survey found that 92 percent of expatriates say that the Internet is critical to their lives, and 96 percent say they use it daily. In future, it is expected that "relocation stores" will appear on the Internet, set up by relocation companies for corporations and consumers to access for help with career services, cross-cultural training, stress management, and more.[5] And over 80 percent of the Global 500 corporations (the 500 largest corporations in the workd) use their Web site for global recruiting.[6]

Second, sending employees abroad and managing HR globally is complicated by the nature of the countries into which many firms are expanding. Employers today are not just transferring employees into the relatively familiar surroundings of industrialized nations. For example, **Figure 13.1** identifies 7 of the 15 countries chosen most often by 192 HR managers "as among the three countries they see emerging as assignment locations for their organizations."[7] Notice the range of HR-related challenges that an employer can expect when assigning employees in some of these countries. In China, for instance, special insurance should cover emergency evacuations for serious health problems; telephone communication can be a "severe handicap" in Russia; and the compensation plan for employees in Mexico may have to deal with an inflation rate that approaches 52 percent per year.[8]

How Intercountry Differences Affect HRM

To a large extent, companies operating only within Canada's borders have the luxury of dealing with a relatively limited set of economic, cultural, and legal variables, as Canada is basically a capitalist competitive society. A company that is operating multiple businesses abroad is generally not blessed with such relative homogeneity. For example, minimum legally mandated holidays may range from none in the United Kingdom to five weeks per year in Luxembourg. Another troubling issue is the need for tight security and terrorism awareness training for employees sent to countries such as Colombia, where kidnapping of foreign executives is commonplace.[9] The management of the HR function in multinational companies is complicated enormously by the need to adapt HR policies and procedures to the differences among countries in which each subsidiary is based. The following are some intercountry differences that demand such adaptation.[10]

While vacationers like these in Luxembourg are legally entitled to five weeks' holiday, standards vary widely even within Europe.

Cultural Factors: Wide-ranging cultural differences from country to country demand corresponding differences in HR practices among a company's foreign subsidiaries. The cultural norms of the Far East and the importance there of the patriarchal system affect the typical Japanese worker's view of his or her relationship to an employer as well as influence how that person works. Japanese workers have often come to expect lifetime employment in return for their loyalty, for instance. As well, incentive plans in Japan tend to focus on the work group, while in the West the more usual prescription is still to focus on individual worker incentives.

A well-known study by Professor Geert Hofstede underscores other international cultural differences. Hofstede says that societies differ first in *power distance*; in other words, they differ in the extent to which the less powerful members of institutions accept and expect that power will be distributed unequally.[11] *Individualism versus collectivism* refers to the degree to which ties between individuals are normally loose rather than close. In more individualistic countries, "all members are expected to look after themselves and their immediate families."[12] Individualistic countries include Canada and the United States. Collectivist countries include Indonesia and Pakistan. *Masculinity versus femininity* refers, said Hofstede, to the extent to which society values assertiveness ("masculinity") versus caring (what he called "femininity"). Japan and Austria ranked high in masculinity; Denmark and Chile ranked low.

Such intercountry cultural differences have several HR implications. First, they suggest the need for adapting HR practices such as selection testing and pay plans to local cultural norms. They also suggest that HR staff members in a foreign subsidiary are best drawn from host-country citizens. A high degree of sensitivity and empathy for the cultural and attitudinal demands of coworkers is always important when selecting employees to staff overseas operations. As one expert puts it, "An HR staff member who shares the employee's cultural background is more likely to be sensitive to the employee's needs and expectations in the workplace—and is thus more likely to manage the company successfully."[13]

Economic Factors: Differences in economic systems among countries also translate into intercountry differences in HR practices. In free enterprise systems, for instance, the need for efficiency tends to favour HR policies that value productivity, efficient workers, and staff cutting where market forces dictate. Moving along the scale toward more socialist systems, HR practices tend to shift toward preventing unemployment, even at the expense of sacrificing efficiency.

Labour Cost Factors: Differences in labour costs may also produce differences in HR practices. High labour costs can require a focus on efficiency, for instance, and on HR practices (like pay-for-performance) aimed at improving employee performance. Intercountry differences in labour costs are substantial. For example, hourly compensation costs in U.S. dollars for production workers in manufacturing recently ranged from a high of $25.56 in Germany to a low of $2.65 in Mexico.[14] Wide gaps also exist in hours worked. For example, workers in Portugal average about 1980 hours of work annually, while workers in Germany average 1648 hours. Employees in Europe generally receive four weeks of vacation as compared with two or three weeks in Canada.

Industrial Relations Factors: Industrial relations, and specifically the relationship between the worker, the union, and the employer, vary dramatically from country to country and have an enormous impact on HRM practices. In Germany, for instance, *codetermination* is the rule. Here, employees have the legal right to a voice in setting company policies.[15] On the other hand, in many other countries, the state interferes little in the relations between employers and unions.

Summary: Intercountry variations in culture, economic systems, labour costs, and industrial relations systems complicate the task of selecting, training, and managing employees abroad. These variations result in corresponding differences in management styles and practices from country to country, and such dif-

Figure 13.1 Emerging Destinations for Foreign Assignments

Country or Region	Type of Government	GDP Per Capita (US$)	Inflation Rate	Native Languages	Travel Per Diem (US$)	Entry Requirements	Standard Workweek	Labour Law Snapshot
People's Republic of China (PRC) *(Zhonghua Renmin Gongheguo)*	Communist state	$2,900	10.1%	Standard Chinese or Mandarin, Yue (Cantonese), Wu, Minbei, Minnan, Xiang, Gan, Hakka dialects, minority languages.	Range: $119–226	Canadian citizens must have a passport and visa. Most business visitors on initial visits enter on tourist visas, which don't require a letter of invitation.	Mon. through Fri., 08:00–noon and 13:00 (or 14:00)–17:00	Rules for hiring Chinese nationals depend on the type of establishment: wholly–owned, joint venture or representative office.
Republic of India	Federal republic	$1,500	9%	English is important for national, political and commercial communication. Hindi is the primary tongue of 30% of the people.	Range: $186–306	A passport and a visa are required. Also: evidence of yellow fever immunization if the traveler is arriving from an infected area.	Most offices: Mon. through Fri., Some offices: Mon. through Sat.	Less than 2% of the total workforce is unionized. Worker days lost to strikes and lockouts have declined since 1991.
Federative Republic of Brazil *(Rebublica Federativa do Brasil)*	Federal republic	$6,100	23%	Official language: Portuguese. Also Spanish, English and French.	Range: $56–252	Travelers must have a temporary business visa (valid for 90 days) if they plan to transact business.	Mon. through Fri., 08:30 or 09:00–17:30 or 18:00 with a one- to two-hour lunch. Some factories: half-days on Sat.	Labour unions, especially in the most skilled sectors, tend to be well-organized and aggressive in defending wages and conditions.
Russian Federation *(Rossiyskaya Federatsiya)*	Federation	$5,300	7%	Primary language: Russian.	Range: $191–319	Canadian citizens must have a passport and visa. Visas are issued based on support from a sponsor: a Russian individual or organization.	40 hours per week.	Local labour mobility within Russia is limited by housing shortages and difficulties in obtaining government-required residence permits.
United Mexican States *(Estados Unidos Mexicanos)*	Federal republic operating under a centralized government	$7,700	52%	Spanish and various Mayan dialects.	Range: $61–255	Canadian citizens can apply for a business visa for up to 30 days on arrival in Mexico. Longer stays require an FM-3 visa.	48 hours including one paid day of rest.	For overtime, workers must be paid twice their normal rate—and three times their hourly rate when more than nine hours per week of overtime.
Republic of Singapore	Republic within a common-wealth	$22,900	1.7%	National language: Malay. Other languages: Chinese, Tamil and English.	$211	Passports are required. Visas aren't necessary for Canadian-based travelers.	44 hours: Mon. through Fri., 08:30–17:30 and Sat., 08:30–13:00.	The government places a ceiling on the % of foreign workers various industries may employ and a monthly levy for each foreign worker.
Hong Kong	Territory of China as of July 1997	$27,500	8.4%	Chinese (Cantonese) and English.	$344	Visas allowing residence and local employment for expats are granted on the basis of simple procedures.	Mon. through Fri., 09:00–17:00. Sat. was traditionally a half-day, but many companies now advertise 5-day workweeks.	Minimal labour relations difficulties. The average number of days lost due to industrial conflicts is one of the lowest in the world.

Labour Force	Unemployment Rate	Literacy Rate	Telephone System	Health & Medical Care	International Schools	Hardship Premium	Direct Investment (US$)	Embassy Information
583.6 million (1991)	5.2% (1995)	81.5% (1995)	Domestic and international services are increasingly available for private use. Unevenly distributed system.	Co. insurance should cover emergency evacuations. Serious cases are often handled in Hong Kong.	9 schools in 6 cities	15–25%	Foreign investment including (U.S.): $38 billion in 1995.	**Embassy of the PRC** 515 Patrick Street Ottawa, Ontario K1N 5H3 Tel: 613-789-3434
314.751 million (1990)	Info not available.	52% (1995)	Probably the least adequate system of the industrializing countries. Slows industrial and commericial growth.	Adequate care is available in population centres. Doctors and hospitals often expect payment in cash.	6 schools in 6 cities	10–20%	U.S. investment: $192 million in 1995.	**High Commission of India** 10 Springfield Road Ottawa, Ontario K1M 1C9 Tel: 613-744-3751 E-mail: hicomind@sprint.ca URL: www.docuweb.ca/India
57 million (1989)	5% (1995)	83.3% (1995)	Good working system.	Information not available.	12 schools in 10 cities	0–10%	U.S. Investment: $23.6 billion by end of 1995.	**Embassy of Brazil** 450 Wilbrod Street Ottawa, Ontario K1N 6M8 Tel: 613-237-1090 E-mail: mailbox@brasemb.org
85 million (1993)	8.2% (1995)	98% (1995)	Enlisting foreign help to speed up modernization. A severe handicap to the economy.	Far below Western standards with severe shortages of basic supplies.	3 schools in 3 cities.	10–25%	Foreign investment (including U.S.): $2.1 billion in 1996.	**Embassy of the Russian Federation** 2650 Charlotte Street Ottawa, Ontario K1N 8L5 Tel: 613-235-4341 E-mail: rusemb@magma.ca URL: www.magma.ca/~rusemb
33.6 million (1994)	10% (1995)	89.6% (1995)	Adequate domestic service for business and gov't, but the public is poorly served.	Dependable in the principal cities. Most private doctors have North American training.	15 schools in 10 cities	0–5%	Information not available.	**Embassy of Mexico** 45 O'Connor Street, Suite 1500 Ottawa, Ontario K1P 1A4 Tel: 613-233-8988 E-mail: info@embamexcan.com URL: www.embamexcan.com
1.649 million (1994)	2.6% (1995)	91.1% (1995)	Good domestic facilities and international service.	Information not available.	7 schools in a small country	0%	Foreign investment (including U.S.) in manufacturing: $4.1 billion in 1996	**Consulate-General of the Republic of Singapore** 40 King Street West, Suite 3005 Toronto, Ontario M5H 1H1 Tel: 416-866-6134
2.915 million (1994)	3.5% (1995)	92.2% (Age 15+ had some school; 1995)	Modern facilities provide excellent domestic and international service.	Information not available.	11 schools in a small region	0%	U.S. Investment: $13.8 billion by the end of 1995.	**Embassy of the PRC** 515 Patrick Street Ottawa, Ontario K1N 5H3 Tel: 613-789-3434

Source: Adapted from *Global Workforce*, January 1998, pp. 18-21.

Canadian Employee Relocation Council
www.cerc.ca

ferences "… may strain relations between headquarters and subsidiary personnel or make a manager less effective when working abroad than at home."[16] International assignments thus run a relatively high risk of failing unless special steps are taken in selecting, training, and compensating international assignees.

Improving International Assignments Through Selection

Canadian companies have reported low failure rates for employees on foreign assignments relative to other countries, particularly the United States.[17] Failure is defined as the premature return of employees to their home country or the inability of expatriates to achieve their business goals. One survey concluded that three-quarters of U.S. multinational companies experience expatriate assignment failure rates of 10 percent or more.[18] European and Japanese multinationals reported lower failure rates, with only about one-sixth of Japanese multinationals and three percent of European multinationals reporting more than a 10-percent expatriate recall rate. For American multinationals, the reasons for expatriate failure (in descending order of importance) were inability of spouse to adjust, managers' inability to adjust, other family problems, managers' personal or emotional immaturity, and inability to cope with larger overseas responsibility. Managers of European firms emphasized only the inability of the manager's spouse to adjust as an explanation for the expatriate's failed assignment. Japanese firms emphasized (in descending order) inability to cope with larger overseas responsibility, difficulties with new assignment, personal or emotional problems, lack of technical competence, and finally, inability of the spouse to adjust.[19] Thus it is usually not inadequate technical competence but family and personal problems that undermine the international assignee.

Windham International
www.ExpatSpouse.com

The Canadian experience is unique.[20] Factors identified by Canadian firms as important to expatriate success include flexibility, language ability, and family adjustment. However, these factors were not identified by Canadian companies as having been part of the selection and training process for expatriates. There are three potential explanations for this result. First, Canadians may be more culturally adaptable than their foreign counterparts because they are already familiar with bilingualism and multiculturalism. Second, Canadian expatriates are so few in number that they can be dealt with on an individual basis. Thus their firms may be doing more to prepare and support them than they report, because their systems are not formalized. Third, Canadian expatriate assignments have tended to be in culturally similar situations, which makes successful adaptation more likely.

These problems have resulted in relocation policies becoming more flexible.[21] Some organizations have moved away from full-scale relocation of an employee and his or her family to alternatives such as: frequent extended business trips with corresponding time spent back at home; short-term assignments of from three to twelve months with frequent home leave; and the dual household arrangement where the employee's family remains at home and the employee sets up a small household for him or herself in the foreign country. Cost is another significant factor behind the growing number of short-term assignments, as they are generally seen as less costly than traditional expatriate assignments.[22]

A recent survey of 520 multinational companies worldwide, including 50 Canadian companies, with a total of more than 30 000 employees on short-term assignment, found that overall program coordination is the biggest challenge—often finding out who is on short-term assignment can be a major problem in large multinationals. Unfortunately, relocation support services provided to employees on short-term assignment is often inconsistent and frequently inadequate. More than half the time, orientation, security briefings, cross-cultural training, and language training are provide on a case-by-case basis. Thus managing short-term assignments effectively is a significant challenge for both HR managers and business unit managers.[23]

International Staffing: Sources of Managers

There are several ways in which to classify international managers. *Locals* are citizens of the countries where they are working. *Expatriates* are non-citizens of the countries in which they are working.[24] *Home-country nationals* are the citizens of the country in which the multinational company's headquarters is based.[25] *Third-country nationals* are citizens of a country other than the parent or the host country—for example, a British executive working in a Tokyo subsidiary of a Canadian multinational bank.[26]

Expatriates represent a minority of managers. Thus, "most managerial positions are filled by locals rather than expatriates in both headquarters or foreign subsidiary operations."[27] There are several reasons to rely on local, host-country management talent for filling the foreign subsidiary's management ranks. Many people simply prefer not to work in a foreign country, and in general the cost of using expatriates is far greater than the cost of using local management talent.[28] The multinational corporation may be viewed locally as a "better citizen" if it uses local management talent, and indeed some governments actually press for the "nativization" of local management.[29] There may also be a fear that expatriates, knowing that they are posted to the foreign subsidiary for only a few years, may overemphasize short-term projects rather than focus on perhaps more necessary long-term tasks.[30]

There are also several reasons for using expatriates—either home-country or third-country nationals—for staffing subsidiaries. The major reason is reportedly technical competence: in other words, employers cannot find local candidates with the required technical qualifications.[31] Multinationals also increasingly view a successful stint abroad as a required step in developing top managers. Control is another important reason. Multinationals sometimes assign home-country nationals from their headquarters staff abroad on the assumption that these managers are more steeped in the firm's policies and culture and more likely to unquestioningly implement headquarters' instructions.

International Staffing Policy

Multinational firms' top executives are often classified as either ethnocentric, polycentric, or geocentric.[32] In an *ethnocentric* corporation, "… the prevailing attitude is that home country attitudes, management style, knowledge, evaluation criteria, and managers are superior to anything the host country might have to offer."[33] In the *polycentric* corporation, "there is a conscious belief that only host-country managers can ever really understand the culture and behaviour of the host-country market; therefore, the foreign subsidiary should be managed by local people."[34] The *geocentric* approach, which is becoming more common, assumes that management candidates must be searched for on a global basis, on the assumption that the best manager for any specific position anywhere on the globe may be found in any of the countries in which the firm operates.

These three multinational attitudes translate into three international staffing policies. An ethnocentric staffing policy is one in which all key management positions are filled by parent-country nationals.[35] At Royal Dutch Shell, for instance, virtually all financial controllers around the world are Dutch nationals. Reasons given for ethnocentric staffing policies include lack of qualified host-country senior management talent, a desire to maintain a unified corporate culture and tighter control, and the desire to transfer the parent firm's core competencies (for instance, a specialized manufacturing skill) to a foreign subsidiary more expeditiously.[36]

A polycentric-oriented firm would staff foreign subsidiaries with host-country nationals and its home-office headquarters with parent-country nationals. This may reduce the local cultural misunderstandings that expatriate managers may exhibit. It will also almost undoubtedly be less expensive. One expert estimates that an expatriate executive can cost a firm up to three times as much as a domestic executive because of transfer expenses and other expenses such as schooling for children, annual home leave, and the need to pay income taxes in two countries.[37]

A geocentric staffing policy "seeks the best people for key jobs throughout the organization, regardless of nationality."[38] This may allow the global firm to use its human resources more efficiently by transferring the best person to the open job, wherever he or she may be. It can also help to build a stronger and more consistent culture and set of values among the entire global management team. Team members here are continually interacting and networking with each other as they move from assignment to assignment around the globe and participate in global development activities.

Selecting International Managers

There are common traits which managers to be assigned domestically and overseas will obviously share. Wherever a person is to be posted, he or she will need the technical knowledge and skills to do the job and the intelligence and people skills to be a successful manager, for instance.[39]

However, as discussed earlier in this chapter, foreign assignments make demands on expatriate assignees that are different from what the manager would face if simply assigned to a management post in his or her home country. There is the need to cope with a work force and management colleagues whose cultural inclinations may be drastically different from one's own, and the considerable stress that being alone in a foreign land can bring to bear on the single manager. Of course, if spouse and children will share the assignment, there are also the complexities and pressures that the family will have to confront, from learning a new language to shopping in strange surroundings, to finding new friends and attending new schools.

As summarized in **Figure 13.2**, personal characteristics successfully distinguished the managers identified by their companies as "high potential." Consistent with results such as those mentioned previously, the characteristics—

Figure 13.2 Traits Distinguishing Successful International Executives

SCALE	SAMPLE ITEM
Sensitive to Cultural Differences	When working with people from other cultures, works hard to understand their perspectives.
Business Knowledge	Has a solid understanding of our products and services.
Courage to Take a Stand	Is willing to take a stand on issues.
Brings Out the Best in People	Has a special talent for dealing with people.
Acts with Integrity	Can be depended on to tell the truth regardless of circumstances.
Is Insightful	Is good at identifying the most important part of a complex problem or issue.
Is Committed to Success	Clearly demonstrates commitment to seeing the organization succeed.
Takes Risks	Takes personal as well as business risks.
Uses Feedback	Has changed as a result of feedback.
Is Culturally Adventurous	Enjoys the challenge of working in countries other than his/her own.
Seeks Opportunities to Learn	Takes advantage of opportunities to do new things.
Is Open to Criticism	Appears brittle–as if criticism might cause him/her to break.*
Seeks Feedback	Pursues feedback even when others are reluctant to give in.
Is Flexible	Doesn't get so invested in things that she/he cannot change when something doesn't work.

*Reverse scored

Source: G. Spreitzer, M. McCall Jr. & J. Mahoney, "Early Identification of International Executives", *Journal of Applied Psychology* 82 (1), 1997, pp. 6–29.

such as sensitive to cultural differences, business knowledge, brings out the best in people, takes risks, and is open to criticism—reflect a blend of technical expertise, openness, and flexibility in dealing with people and getting things done.

Adaptability Screening

Adaptability screening is generally recommended as an integral part of the expatriate selection process. Generally conducted by a professional psychologist or psychiatrist, adaptability screening aims to assess the family's probable success in handling the foreign transfer and to alert the couple to personal issues (such as the impact on children) that the foreign move may involve.[40]

Transition Dynamics
www.transition-dynamics.com

The Expatriate Group
www.expat.ca

Past experience is often the best predictor of future success. Companies like Colgate-Palmolive, therefore, look for overseas candidates whose work and non-work experience, education, and language skills already demonstrate a commitment to and facility in living and working with different cultures.[41] Even several summers spent successfully travelling overseas or participating in foreign student programs would seem to provide some concrete basis for believing that the potential transferee can accomplish the required adaptation when he or she arrives overseas.

Realistic job previews at this point are also crucial. Again, both the potential assignee and his or her family require all of the information that can be provided on the problems to expect in the new job (such as mandatory private schooling for the children) as well as any information obtainable about the cultural benefits, problems, and idiosyncrasies of the country in question. A pre-assignment visit to the new location by the employee and his or her family can provide an opportunity to make an informed decision about a potential relocation assignment.[42] International HR managers speak about avoiding culture shock in much the same way as we discussed using realistic job previews to avoid reality shock among new employees. In any case, the rule here is to spell it out ahead of time, as firms like Ciba-Geigy do for their international transferees.[43]

There are also paper-and-pencil tests that can be used to more effectively select employees for overseas assignments. The *Overseas Assignment Inventory* is one such assessment tool. Based on 12 years of research with more than 7000 candidates, the test's publisher contends that it is useful in identifying characteristics and attitudes that such candidates should have.[44]

Training and Maintaining International Employees

Painstaking screening is just the first step in ensuring that the foreign assignee is successful. The employee may then require special training and, additionally, international HR policies must be formulated for compensating the firm's overseas managers and maintaining healthy labour relations.

Orientation and training for international assignments can help employees (and their families) to avoid "culture shock" and better adjust to their new surroundings.

Orienting and Training Employees for International Assignments

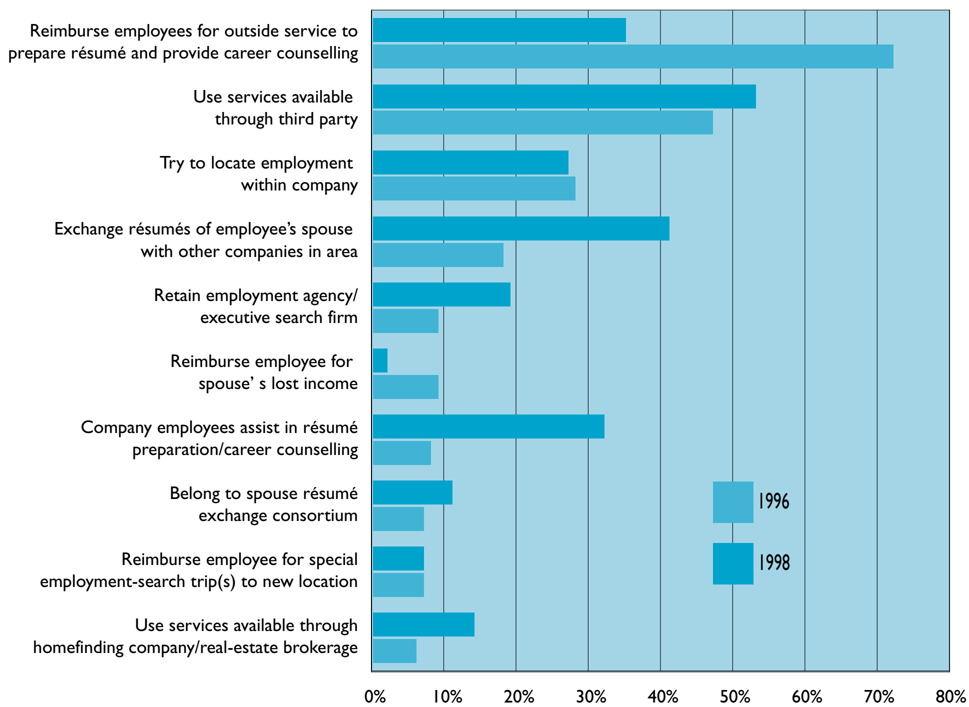
When it comes to providing the orientation and training required for success overseas, most North American firms provide little or no systematic selection and training. While company presidents and chairpersons say that international business is growing in importance and requires employees to be firmly grounded in the economics and practices of foreign countries, few of their companies actually provide such overseas-oriented training to their employees.[45]

What sort of special training do overseas candidates need? One firm specializing in such programs prescribes a four-step approach.[46] Level One training focuses on the impact of cultural differences, and on raising trainees' awareness of such differences and their impact on business outcomes. Level Two training focuses on attitudes, and aims at getting participants to understand how attitudes (both negative and positive) are formed and how they influence behaviour. (For example, unfavourable stereotypes may subconsciously influence how a new manager responds to and treats his or her new foreign employees.) Finally, Level Three training provides factual knowledge about the target country, while Level Four provides skill building in areas like language and adjustment and adaptation skills. The depth of training is of the utmost importance. If firms are going to provide cross-cultural training, it needs to be in-depth and done with care.[47] For example, language training must include non-verbal communication awareness, as it varies so widely across the world.[48]

Many organizations offer spousal assistance in the form of reimbursement for continuing education, job search assistance, résumé preparation, or recertification.[49] **Figure 13.3** provides the results of a survey by Runzheimer consultants of 43 relocation professionals on the types of spousal re-employment assistance offered in formal relocation programs.

Beyond these special training practices, there is also the need for more traditional training and development of overseas employees. IBM and other major firms have established management development centres around the world for their executives. Beyond that, classroom programs (such as those at the London Business School, or at INSEAD in Fontainebleu, France) provide overseas executives with the opportunities that they need to build their functional skills.

FIGURE 13.3 Expatriate Spousal Re-employment Assistance



Source: Runzheimer Reports on Relocation, *Canadian HR Reporter* (June 5, 2000), p. 11. © Carswell, Thomson Professional Publishing. Reproduced by permission of *Canadian HR Reporter*, Carswell, One Corporate Plaza, 2075 Kennedy Road, Scarborough, ON M1T 3V4.

In addition, international management development often aims to improve control of global operations by building a unified corporate culture by bringing together managers from far-flung subsidiaries and immersing them for a week or two in the firm's cherished values and current strategy and policies. The managers should then be more likely to adhere consistently to these values, policies, and aims once they return to their assignments abroad.

International Compensation

The whole area of international compensation management presents some tricky problems. On the one hand, there is a certain logic in maintaining company-wide pay scales and policies so that, for instance, divisional marketing directors throughout the world are all paid within the same narrow range. This reduces the risk of perceived inequities and dramatically simplifies the job of keeping track of disparate country-by-country wage rates.

Yet, the practice of not adapting pay scales to local markets can present an HR manager with more problems than it solves. The fact is that it can be enormously more expensive to live in some countries (like Japan) than others (like Greece); if these cost-of-living differences are not considered, it may be almost impossible to get managers to take "high-cost" assignments.

However, the answer is usually not just to pay, say, marketing directors more in one country than in another. For one thing, the firm could thereby elicit resistance when telling a marketing director in Tokyo who is earning $3000 per week to move to a division in Spain, where his or her pay for the same job (cost of living notwithstanding) will drop by half. One way to handle the problem is to pay a similar base salary company-wide and then add on various allowances according to individual market conditions.[50]

Determining equitable wage rates in many countries is no simple matter, as compensation survey data is hard to come by overseas. Some multinational companies deal with this problem for local managers by conducting their own annual compensation surveys. For example, Kraft conducts an annual study of total compensation in Belgium, Germany, Italy, Spain, and the United Kingdom.

The Balance Sheet Approach

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Interlink Consulting Services
www.interlinkconsulting.com

The most common approach to formulating expatriate pay is to equalize purchasing power across countries, a technique known as *the balance sheet approach*.[51] The basic idea is that each expatriate should enjoy the same standard of living that he or she would have had at home. With the balance sheet approach, four main home-country groups of expenses—income taxes, housing, goods and services, and reserve—are the focus of attention. The employer estimates what each of these four expenses is for the expatriate's home country, and also what each is expected to be in the expatriate's host country. Any differences—such as additional income taxes or housing expenses—are then paid by the employer.

In practice, this usually boils down to building the expatriate's total compensation around five or six separate components. For example, *base salary* will normally be in the same range as the manager's home-country salary. In addition, however, there might be an *overseas or foreign service premium*. This is paid as a percentage of the executive's base salary, in part to compensate the manager for the cultural and physical adjustments that he or she will have to make.[52] There may also be several *allowances*, including a housing allowance and an education allowance for the expatriate's children. Income taxes represent another area of concern. In many cases, a Canadian manager posted abroad may have to pay not only Canadian taxes, but also income taxes to the country to which he or she is posted as well.

Incentives

One international compensation trend is the use of long-term incentive pay for overseas managers. Multinationals are formulating new long-term incentives specifically for overseas executives, using performance-based long-term incentive plans that are tied more closely to performance at the subsidiary level. These can help to build a sense of ownership among key local managers while providing the financial incentives needed to attract and keep the people required for overseas operations.

A recent study by consulting firm William M. Mercer Ltd. found that in order to discourage employees from leaving while on foreign assignment, "mobility premiums" are increasingly being used. These premiums average about 15 percent of base salary, but can go up to 30 or 40 percent for difficult locations like Algeria, China, and Columbia. The survey also found that 20 percent of companies now pay part of the mobility premium at the beginning of an assignment, with the remainder paid on return to the home country at the completion of the assignment.[53]

International EAPs

EAPs are going global, helping expatriates to take care of their mental health, which is often affected by the stressful relocation process.[54] The approach is to proactively contact employees before departure to explain the program's services, then about three months after arrival families are contacted again. By this time, they have usually run into some challenges from culture shock and will welcome some assistance. The expatriates and their families have then established a connection with the EAP to use for ongoing support.

Problems such as homesickness, boredom, withdrawal, depression, compulsive eating and drinking, irritability, marital stress, family tension and conflict are all common reactions to culture shock. Treatment for psychiatric illnesses varies widely around the world, as do the conditions in government-run mental health institutions. Thus consultation with an EAP professional having extensive cross-cultural training may be critical in ensuring that appropriate medical treatment is obtained.[55]

Performance Appraisal of International Managers

Several issues complicate the task of appraising an expatriate's performance.[56] For one thing, the question of who actually appraises the expatriate is crucial. Obviously, local management must have some input into the appraisal, but the appraisal may then be distorted by cultural differences. Thus, an expatriate manager in India may be evaluated somewhat negatively by his host-country bosses, who find his use of participative decision making inappropriate in their culture. On the other hand, home-office managers may be so geographically distanced from the expatriate that they cannot provide valid appraisals because they are not fully aware of the situation that the manager actually faces. This can be problematic: the expatriate may be measured by objective criteria such as profits and market share, but local events such as political instability may undermine the manager's performance while remaining "invisible" to home-office staff.[57]

Two experts make five suggestions for improving the expatriate appraisal process.

1. Stipulate the assignment's difficulty level. For example, being an expatriate manager in China is generally considered to be more difficult than working in England, and the appraisal should take such difficulty-level differences into account.
2. Weight the evaluation more toward the on-site manager's appraisal than toward the home-site manager's distant perceptions of the employee's performance.
3. If the home-site manager does the actual written appraisal, a former expatriate from the same overseas location should be used to provide background advice during the appraisal process. This can help to ensure that unique local issues are considered during the appraisal process.
4. Modify the normal performance criteria used for that particular position to fit the overseas position and characteristics of that particular locale. For example, "maintaining positive labour relations" might be more important in Chile, where labour instability is more common, than it would be in Canada.
5. Attempt to give the expatriate manager credit for relevant insights into the functioning of the operation and specifically the interdependencies of the domestic and foreign operations, such as, do not just appraise the expatriate manager in terms of quantifiable criteria like profits or market share. For example, his or her recommendations regarding how home office/foreign subsidiary communication might be enhanced should also affect the appraisal.

International Labour Relations

International Labour Organization
www.ilo.org

Firms opening subsidiaries abroad will find substantial differences in labour relations practices among the world's countries and regions. The following synopsis illustrates some of these differences by focusing on Europe. However, keep in mind that similarly significant differences would exist in South and Central America and Asia. Some important differences between labour relations practices in Europe and North America include:[58]

1. *Centralization.* In general, collective bargaining in Western Europe is likely to be industry-wide or regionally oriented, whereas North American collective bargaining generally occurs at the enterprise or plant level. Thus local unions in Europe tend to have much less autonomy and decision-making power than in North America. Also, the employer's collective bargaining role tends to be performed primarily by employer associations in Europe, rather than individual employers (as in North America).
2. *Content and scope of bargaining.* North American labour–management agreements tend to focus on wages, hours, and working conditions. European agreements, on the other hand, tend to be brief and simple and

to specify minimum wages and employment conditions, with employers being free to institute more generous terms.

3. *Grievance handling and strikes*. In Western Europe, grievances occur much less frequently than in North America, when raised, they are usually handled by a legislated machinery outside the union's formal control. Generally speaking, strikes occur less frequently in Europe, due to industry-wide bargaining, which generally elicits less management resistance than in North America.[59]
4. *Government's role*. In Europe, governments generally do not regulate the bargaining process but are much more interested in directly setting the actual terms of employment than is the case in North America.
5. *Worker participation*. Worker participation has a long and relatively extensive history in Western Europe, where it tends to go far beyond such matters as pay and working conditions. The aim is to create a system by which workers can participate in a meaningful way in the direct management of the enterprise. Determining wages, hours, and working conditions is not enough; employees should participate in formulating all management decisions. In many countries in Western Europe, works councils are required. A *works council* is a committee in which plant workers consult with management about certain issues or share in the governance of the workplace.[60] Codetermination is a second form of worker participation in Europe. *Codetermination* means that there is mandatory worker representation on an enterprise's board of directors. It is especially prevalent in Germany.

Safety Abroad

The Emerald Group (security)
www.emeraldgrp.com

Making provisions to ensure employee safety does not stop at a country's borders. While Canada has often taken the lead with respect to matters such as occupational safety, other countries are also quickly adopting such laws.

Having employees abroad does raise some unique safety issues, however. For example, "kidnapping has become a way of life" in some countries in Central and South America, and in many places—"Brazil, Nigeria, the Philippines, Russia, and New Guinea, to name a few—street crime is epidemic, although tourists and business people are rarely kidnapped or assassinated."[61] As one security executive at an oil company put it, "It's crucial for a company to understand the local environment, local conditions and what threat exists."[62] Keeping business travellers out of crime's way is a specialty all its own but suggestions here include:[63]

- provide expatriates with general training about travelling and living abroad, and specific information about the place that they are going to, so they are better oriented when they get there
- have travellers arrive at airports as close to departure time as possible and wait in areas away from the main flow of traffic where they are not as easily observed
- equip the expatriates' car and home with adequate security systems
- tell employees to vary their departure and arrival times and take different routes to and from work

- keep employees current on crime and other problems by regularly checking travel advisory service and consular information sheets; these provide up-to-date information on possible threats in almost every country of the world
- advise employees to remain confident at all times: body language can attract perpetrators, and those who look like victims often become victimized.[64]

Repatriation: Problems and Solutions

Repatriation is often a bittersweet experience for the returning expatriate. *Repatriation*, the process of moving back to the parent company and country from the foreign assignment, means returning one's family to familiar surroundings and old friends.[65] The returning employee all too often discovers, however, that in many respects his or her employer has ignored the manager's career and personal needs.

Several repatriation problems are very common. One is the expatriate's fear that he or she has been "out of sight, out of mind" during an extended foreign stay and has thus lost touch with the parent firm's culture, top executives, and those responsible for the firm's management selection processes. Such fears can be well founded, as many repatriates are temporarily placed in mediocre or makeshift jobs.[66] Ironically, the company often undervalues the cross-cultural skills acquired abroad, and the international posting becomes a career-limiting, rather than career-enhancing, move.[67] Perhaps more exasperating is the discovery that some of the expatriate's former colleagues have been more rapidly promoted while he or she was overseas. Even the expatriate's family may undergo a sort of reverse culture shock, as spouse and children face the often daunting task of picking up old friendships and habits or starting schools anew upon their return. Expatriates who experience problems fitting back into the organization often leave, and the firm loses a valuable resource.[68]

International SOS
www.internationalsos.com

Progressive multinationals anticipate and avoid these problems by taking a number of sensible steps. These can be summarized as follows:[69]

1. *Write repatriation agreements*. Many firms use repatriation agreements, which guarantee in writing that the international assignee will not be kept abroad longer than some period (such as five years), and that on return he or she will be given a mutually acceptable job.
2. *Assign a sponsor*. The employee should be assigned a sponsor, such as a senior manager at the parent firm's home office. This person's role is to keep the employee apprised of significant company events and changes back home, to monitor his or her career interests, and to nominate the person to be considered for key openings when the expatriate is ready to come home.
3. *Provide career counselling*. Provide formal career counselling sessions to ensure that the repatriate's job assignments upon return will meet his or her needs.[70]
4. *Keep communication open*. Keep the expatriate "plugged in" to home-office business affairs through management meetings around the world, frequent home leave combined with stays at headquarters to work on specific problems, and regularly scheduled meetings at headquarters.[71]
5. *Offer financial support*. Many firms pay real estate and legal fees and help the expatriate to rent or in some other way to maintain his or her residence, so that the repatriate and his or her family can actually return "home."

6. *Develop reorientation programs.* Finally, provide the repatriate and his or her family with a reorientation program to facilitate the adjustment back into the home culture.
7. *Build in return trips.* One study concluded that, particularly when they come from a more homogeneous culture (in this case Finland) and are sent to a more "novel" culture, expatriates can benefit from more frequent trips to the home country "to ensure that expatriates stay in touch with home-country norms and changes during their international assignment."[72]

hrWORKS

"In North America the Squeaky Wheel Gets the Grease. In Korea the Nail That Stands Out Gets Pounded In."

...Eastern cultures have societies and systems that are very different from those in the [W]est... In Japan [for example], the word for "individualism" has negative connotations. Groups tend to value cooperation more [in the East] than in the [W]est...[G]roup rather than individual achievement and an approach [that] tends to be more holistic in thinking—looking for the collective good rather than the individual good—[is valued]. Individuals tend often to do better on projects that have a social conte[x]t, where there own output can be perceived as part of the bigger picture. This is very different from the [W]est, where being "best" or "top of the class" has been the traditional underlying theme that affects both education and training. It is this attitude that has caused many organizations such problems and stress in attempting to develop new forms of organization based upon teams and team-work. This has traditionally been alien to the Western workforce despite the lip service paid to it....

Source: HR Works/Training and Development Guide/Commentary/Special Training Needs/[67,070] Cross-Cultural Training/[67,075] Cultural Differences. Reproduced with permission from the Training and Development Guide, ¶67,075, published by and copyright CCH Canadian Limited, North York, Ontario.

Chapter *Review*

1. Companies must increasingly be managed globally, which confronts managers with many new challenges. As a result, companies today have pressing international HRM needs regarding selecting, training, compensating, and repatriating global employees.
2. Intercountry differences have an impact on a company's HRM processes. Cultural factors, economic factors, labour cost factors, and industrial relations norms influence the nature of a company's specific HR policies from country to country.
3. A large percentage of expatriate assignments fail, but the results can be improved through careful international assignee selection. Locals rather than expatriates fill most managerial positions. This is not always the case, however. In the ethnocentric corporation, the prevailing attitude is that home-country managers are superior; in polycentric firms, host-country managers predominate; and in geocentric firms, the best manager for any specific position is chosen from among the firm's global work force.
4. Selecting managers for expatriate assignments means screening them for traits that predict success in adapting to dramatically new environments. Such expatriate traits include adaptability and flexibility, cultural toughness, self-orientation, job knowledge and motivation, relational skills, extracultural openness, and family situation.

Adaptability screening that focuses on the family's probable success in handling the foreign transfer can be an especially important step in the expatriate selection process.

5. Prior to assignment, training for overseas managers typically focuses on cultural differences, on how attitudes influence behaviour, and on factual knowledge about the target country. The most common approach to formulating expatriate pay is to equalize purchasing power across countries, a technique known as the balance sheet approach. International EAPs have become more common, and help expatriates deal with the stressful relocation process.
6. The expatriate appraisal process can be complicated by the need to have both local and home-office supervisors provide input into the expatriate's performance review. Suggestions for improving the expatriate appraisal process include stipulating assignment difficulty level, weighing the on-site manager's appraisal more heavily, and having the home-site manager get background advice from managers familiar with the location abroad before completing the expatriate's appraisal.
7. Firms opening subsidiaries abroad find substantial variation in labour relations practices among the world's countries and regions. For example, even within Europe, differences exist with respect to centralization of collective bargaining, local union autonomy, use of employer associations, procedures for gaining union recognition, and grievance handling.
8. Repatriation problems are very common but can be minimized. They include the often well-founded fear that the expatriate is "out of sight, out of mind," and difficulties in reassimilating the expatriate's family back into home-country culture. Suggestions for avoiding these problems include using repatriation agreements, assigning a sponsor, offering career counselling, keeping the expatriate plugged in to home-office business, building in return trips, providing financial support to maintain the expatriate's home-country residence, and offering reorientation programs to the expatriate and his or her family.

Application *Exercises*

RUNNING CASE: LearnInMotion.com

Going Abroad

According to its business plan, and in practice, LearnInMotion.com "acquires content globally but delivers it locally." In other words, the courses and other material that it lists on its site come from content providers all over the world. However, the "hard copy" (book and CD-ROM) courses are delivered, with the help of independent contracting delivery firms, locally, in three Canadian cities. Now the company is considering an expansion. While the most logical strategic expansion would probably entail adding cities in Canada, one of its major content providers—a big training company in England—believes there is a significant market for LearnInMotion services in England, and particularly in London, Oxford, and Manchester (all of which are bustling business centres, and all of which have well-known universities). The training company has offered to finance and co-own a branch of LearnInMotion.com, in London. They want it housed in the training firm's new offices in Mayfair, near Shepherds Market. This is an easily accessible (if somewhat expensive) area, within easy walking distance of Hyde Park and Hyde Park corner, and not far from the London Underground Piccadilly line, which runs directly through the city to Heathrow airport. Everyone concerned wants to make sure the new operation can "hit the ground running." This means either Jennifer or Pierre will have to move to London almost at once, and take one salesperson and one of the content management people along. Once there, this small team could hire additional employees locally, and then, once the new operation is running successfully, return to Kanata, probably within three or four months.

Jennifer and Pierre have decided to go ahead and open the London office, but this is not a decision they've taken lightly, since there are many drawbacks to doing so. The original, Kanata-based site is not generating anywhere near the sales revenue it was supposed to at this point, and being short three key employees is not going to help. Neither the board of directors nor the representatives of the venture capital fund were enthusiastic about the idea of expanding abroad, either. However, they went along with it; and the deciding factor was probably the cash infusion that the London-based training firm was willing to make. It basically provided enough cash to run not just the London operation but the Kanata one for an additional six months.

Having made the decision to set up operations abroad, Jennifer and Pierre now need to turn to the multitude of matters involved in the expansion—obtaining the necessary licences to open the business in England, and arranging for phone lines, for instance (all carried out with the assistance of the London-based training firm). However, it's also obvious to Jennifer and Pierre that there are considerable human resource management implications involved in moving LearnInMotion employees abroad, and in staffing the operation once they're there. Now, they want you, their management consultants, to help them actually do it. Here's what they want you to do for them.

Questions and Assignments

1. What do you see as the main HR-related implications and challenges as a result of opening the operation in London?
2. How should they go about choosing the person who will be the permanent manager for the new operation? Should they hire someone locally, or use one of the people from the existing operation? Why?
3. Based upon any sources available, including the Internet, explain what they need to know about the comparative cost of living of London and Kanata, including housing and transportation, as well as comparative salaries.
4. Create a checklist of necessary HR-related activities in regard to sending three people abroad.

CBC VIDEO CASE 6

International Dining

With the ever-increasing pace of globalization, more and more business people are ‘doing lunch’ in far-away places. Mealtime etiquette is important in every culture, and this video provides some examples of how easy it is for acceptable table manners in one country to be considered offensive in others. For example, it is not considered appropriate for women to drink alcoholic beverages at business dinners in Asia. Also, when eating soup, the spoon should be tilted toward you in France, but away from you in the U.K.

Questions

1 What are the potential problems associated with not being familiar with and not following acceptable dining etiquette when doing business in other countries?

2 How might a company find out about dining etiquette in other countries? Search the Web or a library for information and bring it to a class discussion of this video.

Source: Based on “International Dining,” *CBC Venture 764* (November 14, 2000).

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Chapter 13

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