CHAPTER 2

THE ROLE OF GLOBALIZATION IN HR POLICY AND PRACTICE

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Describe the different ways companies may engage in international commerce.
2. Explain the different international business strategies
3. Explain how international human resources management (IHRM) differs from traditional domestic HRM
4. Understand the different IHRM strategies
5. Describe the trends relating to international job assignments.
6. Understand the issues and trends relating to the development of globally competent business leaders.

Chapter 2 - Summary

I. Overview

A. Increasing globalization of the world economy and competition
B. Growth of foreign direct investment (FDI) is control through ownership by a foreign company or foreign individuals
C. Creation of offshore professional and operations centers
D. Why expand globally?
   1. Access to additional resources (including skilled workers)
   2. Lower costs
   3. Economies of scale
   4. Favorable regulations and tax systems
   5. Direct access to new and growing markets
   6. Ability to customize products to local tastes and styles
   7. Rise of regional trade alliances (e.g., NAFTA, the European Union)
E. Majority of Fortune 500 companies are now multinational; deriving more than half of their revenues from overseas business

II. How Do Companies Engage In International Commerce?

A. Export Work
   1. To increase sales and revenues
   2. To spread research and development costs over a larger sales volume
   3. To relieve excess capacity
   4. For diversification due to maturing domestic markets
   5. Lack necessary knowledge to directly do business effectively on foreign shores

B. Directly sell their products in a foreign market

C. Use intermediaries who are third parties that specialize in importing and exporting.

D. Advantages of exporting include:
   1. Relatively low investment
   2. Ease of withdrawing from a market

E. Disadvantages of exporting include:
   1. Tariffs and quotas
   2. High transportation costs
   3. Difficulty finding good distributors

F. License is when the licensor leases the right to use its intellectual property to the licensee for a fee. Intellectual property includes patents, formulas, patterns, copyrights, trademarks, brand names, and methods and procedures.

G. Franchise agreement allows franchisee to operate a business under the name of franchiser for a fee

H. Contract manufacturing is when outsourcing of the creation of products occurs

I. Management contracts occur when a company sells its management and/or technical expertise to another

J. Foreign direct investment occurs when an organization owns part of or an entire business in a foreign market

K. Partner alliance allows gradual investment and sharing risk with another

L. Joint ventures create a new, separate company owned jointly by partners

M. Strategic alliance - agreement to partner with one another, not as a separate entity

N. Sole ownership – high risk; single owner in foreign market ensures they have full decision-making authority and operational control

III. What Influences the Decision to Invest in a Particular International Market?

A. General Environment
   1. A particular country's economic, legal, political, and socio-cultural systems, plus diversity in language and religious beliefs

B. Task Environment
   1. Those forces that are directly related to the industry within which a firm operates
   2. Cost pressures, the intensity of competitive rivalry, the ease with which organization may enter or leave the industry, and the degree of power over the company maintained by suppliers and customers
   3. Porter's two types of international industries:
      a. Multilocal industry – competition in each country or region is essentially independent of the competition in other regions
      b. Global industry – a firm's competitive position in one country is significantly affected by its position in other countries

C. Internal Strengths or Weaknesses
   1. Relevant internal factors include an organizational culture, the expertise of its management staff, the sophistication of its information systems, and the ability to detect and respond to consumer trends
   2. These are critical assets that add value within the firms

IV. Domestic versus International HR

A. HR activities all relate to the procurement, allocation and utilization of people. The particular activities themselves may not be all that different regardless of where they are performed or who they cover.

B. Factors that differentiate domestic HR from international HR
   1. Different national governments
   2. Different legal systems
   3. Different economic conditions
   4. People of diverse cultures and values
   5. Suppliers and customers over vast geographical distances

C. Factors that affect the level of difficulty involved in operating HR on an international basis
   1. Legal complexity
   2. Degree of cultural difference (Geert Hofstede)
      a. Individualism/collectivism
      b. Power distance
      c. Uncertainty avoidance
      d. Masculinity/femininity
      e. Long term vs. short term orientations
   3. Organization's degree of foreign investment in relation to its domestic investment
   4. Attitude of senior management toward international operations
      a. Failure to recognize differences between domestic and international operations frequently creates problems in foreign business units

V. International HR strategies

A. Four general international HR management strategies
   1. ***Ethnocentric approach*** - foreign subsidiaries have little autonomy, operations are typically centralized, and major decisions are made at the corporate headquarters
      a. Key positions in management held by parent company nationals (Parent Company Nationals (PCNs))
   2. ***Polycentric philosophy*** - tend to treat each subsidiary as a distinct entity with some level of decision-making authority
      a. PCNs fill key upper level management for a time
      b. Host country nationals (HCNs) fill middle- and lower-level positions, but eventually move up to take over for PCNs
   3. ***Geocentric managerial approach*** - strives to integrate headquarters and foreign subsidiaries through a global workforce
      a. Third country nationals are residents of a country different than either the parent country or the host county
      b. Find best person to fill the position, whether or not they are a PCN, HCN, or third-country national (TCN)
   4. ***Regiocentric managerial approach*** - may be thought of as a scaled-down version of the geocentric model in that it tends to appoint people to positions within global regions

B. What Influences the choice of IHRM strategy?
   1. General environment
   2. The industry environment
   3. Firm's internal strengths and weaknesses
   4. Firm's strategy

VI. International Business Assignments

A. International businesses need international expertise

B. Expatriates: employees who are placed in an assignment outside their home country
   Impatriates: individuals from a host country or a third county who are assigned to work in the headquarters office

C. Goals of International Business Assignments
   1. Key element in developing management teams that are globally focused & globally competent
   2. Expatriate assignments encourage high levels of coordination and control among business units
   3. Requires high levels of international communication, both information sharing and information exchange, because of geographical distances, cultural diversity, complex supply & demand conditions, and other similar pressures

D. Challenges of International Business Assignments
   1. Assignment failure
   2. International compensation: understand cost of living differences impact on setting competitive wages
      a. Balance sheet approach
      b. Going rate approach
      c. Cafeteria-style benefit package
      d. Regional system
      e. Trailing spouse benefits
   3. Cross-cultural training for expatriate and family
      a) Factual information
      b) Cultural orientation and assimilation
      c) Language training
      d) Sensitivity training
      e) Field experience
   4. Repatriation
      a. Difficulty retaining expatriates/ high turnover
      b. Reverse culture shock
      c. Frustration with perceived career opportunities; failure to be able to leverage their international experience, and knowledge

E. Recent Trends in Overseas Assignments
   1. Four types of expatriate assignments
      a. Short-term assignments
      b. Developmental assignments
      c. Strategic assignments
      d. Long-term assignment
   2. More international assignments for women
   3. Push for reducing expenses leads to reliance on shorter term assignments and localization

VII. Global Leadership Challenges

A. Organizations are increasingly committed to developing management teams that are globally focused. HR goal to develop solid global teams

B. What is a globally competent leader?
   1. Integrators who see beyond obvious country and cultural differences
   2. Diplomats who can resolve conflicts and influence locals to accept world standards or commonalities
   3. They can recognize the best from various places and adapt it for utilization elsewhere
   4. They have an in-depth understanding of world markets: their potential and their problems
   5. Masters of global supply chains and distribution channels
   6. They skillfully embrace cultural diversity

C. Competency Model for global leadership: competencies have been identified, however, there is often an overlap of competencies and they often focus on traits rather than learned behaviors. In addition, not enough research to show that the competencies are predictive of actual performance domestically or internationally.

D. Global mindset is a general description of the need for all organizational decision-makers to think well beyond domestic issues
   1. General components of a global mindset
      a. Global data bank
      b. Market knowledge
      c. Understanding the global superstructure
      d. Global economic systems
      e. Cross-cultural skills
      f. Cultural roots
      g. Spirit of generosity, magnanimity

VIII. Summary

A. Business and commerce are increasingly crossing national, regional, and continental borders.
B. Even if you never work for a multinational corporation, chances are the global economy will affect you and your business.
C. There are many approaches to participating outside of an organization's native borders. These approaches vary in risk and investment.
D. After choosing how to focus outside national borders, an organization must determine a basic management strategy. These range from multidomestic to a more global focus.
E. Choosing the right international human resource strategy (IRHM) can aid the organization in meeting its objectives and global goals.
F. Traditionally US companies have used key management talent and international job rotation as a means for developing and deploying strategic capability during efforts to internationalize.
G. Development of effective global leadership continues to be a major challenge

CHAPTER 2 - IMPORTANT TERMS

Acquisitions - involve the purchase of an existing business

Balance sheet approach - international compensation approach that ensures the expatriate maintains the same standard of living in the host country as he/she had in the home country by providing a variety of financial, social, and family benefits

Business Partnership- allows gradual investment and sharing risk with another

Cafeteria-style benefit package – international compensation approach where expatriates can choose from a variety of benefits, at costs that meet a specified total

Competency- KASOC's that enable an individual to perform effectively in a job

Contract manufacturing - when outsourcing of the creation of products occurs

Culture - has been defined, as "a system of values and norms that are shared among a group of people and that when taken together constitute a design for living"

Developmental assignments – an expatriate assignment that is increasingly considered to be a necessity for a high potential fast tracker in many large international companies

Ethnocentric approach - foreign subsidiaries have little autonomy, operations are typically centralized, and major decisions are made at the corporate headquarters

Expatriates- Employees who are placed in an assignment outside their home country

Export - when a company sells it goods or services to a foreign market

Export strategy - views world as single marketplace and standardize goods or services

Foreign direct investment - an investment abroad; usually where the company being invested in is controlled by the foreign corporation or foreign individual.

Franchise agreement - allows franchisee to operate a business under the name of franchisor for a fee

General environment - a country's economic, legal, political, and socio-cultural systems, plus diversity in language and religious beliefs that influences an organization's decision to invest in a particular international market

Geocentric - managerial approach strives to integrate headquarters and foreign subsidiaries

Global approach - combines export orientation and multilocal management

Global industry – one of Porter's two types of international industries. This type of company's competitive position in one country is significantly affected by its position in other countries. This type of company requires integration among units in order to leverage the firm's competitive advantage. Important to have a balance between global competitiveness and local respoinsiveness.

Global mindset - a general description of the need for all organizational decision-makers to think well beyond domestic issues

Global workforce – a workforce that can be deployed in a variety of ways throughout the world. Individual differences in nationality are not as important as individual differences in talent

Globally competent managers and leaders—knowledgeable, effective, well-rounded individuals who could be sent anywhere on the globe to run an operation

Host country nationals (HCNS)- individuals who are residents of countries in which a foreign subsidiary is located

Impatriates- individuals from a host county or a third county who are assigned to work in the headquarters office, when it is located in a different county

Individualism vs. Collectivism – refers to the degree to which individuals looks after themselves or operate in groups

Intermediaries - third parties that specialize in importing and exporting

Joint ventures - create a new, separate company owned jointly by partners

KASOCS- Necessary knowledge, abilities, skills and other characteristics

Licensing is when the **licensor** leases the right to use its intellectual property to the **licensee** for a fee

Localization – international compensation approach that converts expatriates to local standard; the "going-rate approach"

Long-term assignment – an expatriate assignment that is similar to the traditional expatriate role; involves start-ups or ongoing managerial presence to resolve major problems and would typically be taken by a 'career expatriate"

Long-term vs. Short-term orientation – refers to the extent to which members of a society accept delayed gratification of their material, social or emotional needs

Management contracts - occur when a company sells its management and/or technical expertise to another

Masculinity/femininity – refers to different expectation about gender roles in society

Multilocal industries – competition in each country, or region, is essentially independent of the competition in other regions

Offshore professional and operations center – either as a form of sole ownership or a strategic alliance, these centers involve the exporting of the work itself to places around the globe in order to obtain competitive advantage by leveraging combination of such factors as workforce skills, cultural similarities, costs, time, and government policies, regardless of where the work product is ultimately marketed

Parent-country nationals (PCNS)- individuals who are residents of the organization's home country who are sent offshore on assignment

Polycentric philosophy - treats each subsidiary as a distinct entity with some level of decision-making authority

Power distance – the extent to which less powerful members of society accept and expect that power is distributed unequally

Regiocentric managerial approach - may be thought of as a scaled-down version of the geocentric model in that it tends to appoint people to positions within global regions

Regional System- international compensation approach that sets wages for all expatriates assigned to a particular region according to the system that exists in that region

Repatriation – when the expatriates return to the home country

Reverse culture shock – occurs when expatriates who live and work in foreign country become immersed in their new cultures and return home surprised to find that everything has changed, from their companies to their communities

Short-term assignments – an expatriate assignment described as "something longer than a business trip"

Sole ownership - has full decision-making authority and operational control

Strategic alliance - agreement to partner with one another, not as a separate entity

Strategic assignments – an expatriate assignment that involves persons with special skills who are moved to become a country manager in an unfamiliar area

Task environment – the forces that are directly related to the industry within which a firm operates that influences the decision to invest in a particular international market

Third country nationals (TCNS) - are residents of a different country than the parent country or the host country

Trailing spouse- the spouse of an individual assigned to an expatriate assignment that leaves a job and travels with their spouse on the international assignment

Uncertainty avoidance – refers to whether members of society feel comfortable in structured situations

Chapter 2 - Discussion Questions

1. Why do you think businesses internationalize? Which forces are most influential and which are secondary forces?

Major reasons include access to additional resources, lower costs, economies of scale, favorable regulations and tax systems, direct access to new and growing markets, ability to customize products to local tastes and styles, and the rise of regional trade alliances. The identification of the most influential forces depends on the business. Businesses such as electronic manufacturing would identify its major forces as the lower costs of raw materials (as in ferrite cores) and labor. For example, McDonald's or Starbucks would consider access to new and growing markets as the international force of major influence. Software developers would probably cite access to additional qualified talent as a major reason. Produce wholesalers (of oranges, bananas, etc.) would argue that tax advantages in the form of no duties or tariffs would be one justification to internationalize. The argument here is whether the access to new or growing markets is the primary influence and the tariff advantage as the secondary, or the favorable tax opened the new markets. The secondary forces are likely to be the ability to customize products to local tastes and styles and trade alliances.

2. Think of three or four organizations with which you are familiar. How have they been affected by the globalization of business? Make sure you consider both direct and indirect influences. If they have not been particularly affected, what are some of the reasons for their insulation from the trend?

Answers will vary. Direct effects will either be increases to the bottom line or decreases to the bottom line. Increases to the bottom line are generally derived from one or more of the internationalization influences: access to additional resources, lower costs, economies of scale, favorable regulations and tax systems, direct access to new and growing markets, ability to customize products to local tastes and styles, and the rise of regional trade alliances. Decreases to the bottom line include loss of market share due to competitor's globalization that resulted in decreased costs and subsequent gain in market share for competition. Additionally, any of the aforementioned influences that represent competitive advantage could affect the bottom line of its direct competitors.

Indirect influences will likely be from one of the following:
better and more sources available by searching the Internet to find best prices;
purchasing products used in business activities imported by multinational companies.

If the student indicates that the business has not been affected by globalization, the reasoning will probably be due to the local nature of the business. A local farmers' market is a good example of this. The marketer buys only local produce to sell to local patrons. Some of those local patrons could be employees of a multinational and without the globalization of that company that employee may not have been in the local market to buy the local produce. Virtually every business is affected by globalization.

3. Think about two businesses: (1) a manufacturer of athletic gear and (2) a property and casualty insurance company. How might the internationalization of each of these companies differ from one another? What factors might account for these differences? Choose one company and pretend that you're the HR director. How would you figure out the "right" way to manage this international expansion?

Similar factors for both companies in developing an international strategy are the economic, legal, political, and socio-cultural systems, language, and predominant religion in the chosen country. Both would also have to look at the industry specific issues and the internal strengths within their respective organizations.

The athletic gear manufacturer will probably choose the country that has more advantages for lower labor and material costs. The country chosen would depend on whether it is rich with skilled or unskilled labor, depending on how difficult each step of the manufacturing process is. The company will be concerned about regulations and tariffs as well as any part of the process it may transfer to other facilities. The way in which the business globalizes will probably take the form of licensing, franchising, contract manufacturing, joint ventures with some sort of offshore facility. Depending on what their market is, the firm may be either multilocal or globally focused.

The property and casualty insurance firm would place great emphasis on the pool of skilled workers available since labor accounts for most of cost of sales, especially in the service industries. This firm will probably consider language a stronger force than would the manufacturing concern. This firm will probably choose to take advantage of one of these types of globalizing, franchising, management contracts, and strategic alliances.

Each firm will have its unique problems in the process of internationalizing. In both cases, however, the HR issues to look at and answer (the whom, what, when, where, and why) constitute the staffing, decision making, communication, compensation, career planning, performance management, and training of those employees affected. In addition, good measurement systems to determine the effectiveness of any programs instituted for the afore-mentioned activities is essential for any HR director.

4. How do differences in international HR management (IHRM) strategies affect the relative importance of each of the HR domains?

Domestic HR and international HR management strategies perform the same activities, yet international HR management must be aware and involved with the different cultures and the different employment and business laws and regulations within the countries the organization operates. In addition to cultural differences, the degree of the investment that a firm has in its foreign market versus its domestic market is an important consideration for HR. Laws or policies, conflicts of cultures, cultural, standards, training, and compensation differences are those challenges that IHRM need to pay attention to as they affect each of the HR domains.

5. What are the advantages and disadvantages of using home-country, host-country, and third-country nationals? Under what specific circumstances might an organization choose to utilize third-country nationals?

Companies that use home-country nationals believe that their management and human resource practices are a critical core competence that gives them a competitive advantage. These companies usually centralize their operations and the control is focused on the parent company and country. Firms of this strategy would typically have a large domestic market in the home country and cater to that market. Home-country nationals are typically management and key employees, while host country nationals are typically lower management and workers. Some organizations start with home-country nationals and as the host country nationals are identified and trained, turn the operations over to the host country nationals. Major disadvantages to using home-country nationals are the high cost, the poor success rate of expatriates, and the culture shock. Advantages are that the home country national possesses the knowledge about the parent company and can communicate the expectations and standards to the local workforce.

Host country nationals are used when a firm sees that the different legal, social, and cultural conditions would make it difficult to impose the parent company's HR practices that may be more ethnocentric and therefore opt to adopt a polycentric approach. This is generally true of firms that, although they would like tighter controls, have extreme price pressures and have to rely on the lowest cost possible. Host country nationals are typically less costly than home country nationals, especially if the home country has a high per capita GDP, as is the United States or many of the European countries. Communication can be difficult due to language and cultural differences.

Companies that have key positions that require extensive international experience often turn to third country nationals. Usually this is looked upon as part of the training program for those key individuals. Advantages include creating more diverse management and obtaining global skills for leadership that can become a competitive advantage. Disadvantages are costs, culture shock and expatriate success rate.