CHAPTER 20

International Human Resource Management and Labor Relations

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

- Describe the nature of human resource management in international business.
- Detail how firms recruit and select managers for international assignments.
- Explain how international businesses train and develop expatriate managers.
- Discuss how international firms conduct performance appraisals and determine compensation for their expatriate managers.
- Analyze retention and turnover issues in international business.
- Explain basic human resource issues involving nonmanagerial employees.
- Describe labor relations in international business.

Toyota managers believe it takes a special kind of employee to succeed.

Training for the World

When an international business opens a new facility in a foreign country, one of its most important tasks is staffing that new facility with managers and operating employees. To do this, the firm must decide how many employees it needs for the new facility, what skills they must have, where they will be hired, how much they will be paid, and many other issues. When it comes to staffing a foreign operation, Japanese companies are among the most careful and thorough in the world.

Consider how Toyota approaches the staffing of its automobile assembly plants in the United States. In Japan automakers and other manufacturers have set up special training programs in high schools. Students who are not likely to go to college can enter training and apprenticeship programs financed by these businesses. Toyota managers believe it takes a special kind of employee to succeed in their firm. The firm wants to hire only people who will conform to its emphasis on teamwork, corporate loyalty, and versatility along the production line. In Japan prospective employees have been trained and screened along these dimensions while in high school. In the United States such programs are rare, so Toyota goes to what some observers see as extraordinary lengths to select its U.S. employees.

To appreciate the magnitude of its efforts, consider how Toyota staffed its first wholly owned plant in Kentucky. When the firm began to recruit employees for the plant, it received more than 100,000 applications for 2,700 production jobs and 300 office jobs. Over half of these applicants were rejected immediately because they lacked the minimum education or experience Toyota deemed necessary. Other applicants were eliminated early in the screening process because they lacked one or more other essential qualifications.

The thousands of applicants still under consideration were invited to participate in an exhaustive battery of tests. Applicants for even the lowest-level jobs in the plant were tested for over 14 hours. The initial tests covered such areas as manual dexterity, job skills, and technical knowledge. Those applicants who passed the first level of tests were invited back to participate in an organizational simulation exercise. Although many firms use an organizational simulation when hiring managers, Toyota uses it for all prospective employees. Results from the simulation eliminated still other applicants from the pool, while those who remained were invited back for still more testing. This third wave of testing involved performing mock production line jobs on a simulated conveyor belt under the observation of trained supervisors. Only one of every 20 applicants made it through this test and was invited back yet again, this time for an interview.

The interview was conducted by a panel of officials and representatives from each department in the plant. These interviewers were trained to determine how well the applicant would fit into both the overall Toyota culture and the interviewers' specific departments. Finally, applicants who were favorably evaluated by the interviewers were asked to take a physical exam and a drug test. If they passed both, then—and only then—were they deemed to have met Toyota's standards.

By the time the selection process was completed and Toyota actually hired a person, it had spent over $13,000 on testing and evaluating that individual. Moreover, it had spent thousands of additional dollars eliminating others at earlier stages. (While the firm has not released its current hiring costs, they are almost certainly higher than these initial figures.) Even though Toyota's original U.S. plant has been open for over two decades, the firm is just as selective now as in earlier times. The firm allows 24 people a day to sign up for its assessment center evaluation (many more apply each day). About one in a hundred eventually gets a job, although the entire evaluation process and time spent on the waiting list can stretch to two years before the individual actually starts working. Toyota has extended and refined its thorough selection approach into its newest U.S. plants as well. Applicants for jobs at the firm's Indiana truck plant and West Virginia engine plant undergo the same rigorous assessment as applicants at the Kentucky factory, as did workers in San Antonio when Toyota opened its newest truck factory there in 2006.[1] ■

At its most basic level any organization—from a small neighborhood convenience store to the largest multinational corporation (MNC)—is nothing more than a collection of jobs, clusters of jobs, and interconnections among those jobs. The people who fill the jobs are a vital ingredient in determining how effectively the organization will be able to meet its goals, remain competitive, and satisfy its constituents. Toyota's care in selecting its U.S. workforce shows that it understands that its employees are among its most important assets.

The Nature of International Human Resource Management

Human resource management (HRM) is the set of activities directed at attracting, developing, and maintaining the effective workforce necessary to achieve a firm's objectives. HRM includes recruiting and selecting nonmanagers and managers, providing training and development, appraising performance, and providing compensation and benefits. HR managers, regardless of whether they work for a purely domestic firm or an international one, must develop procedures and policies for accomplishing these tasks.

International HR managers, however, face challenges beyond those confronting their counterparts in purely domestic companies.[2] Specifically, differences in cultures, levels of economic development, and legal systems among the countries in which a firm operates may force it to customize its hiring, firing, training, and compensation programs on a country-by-country basis. Particularly troublesome problems develop when conflicts arise between the culture and laws of the home country and those of the host country. For example, prohibitions against gender discrimination in U.S. equal employment opportunity laws conflict with Saudi Arabian custom and law regarding the role of women. Such conflicts cause problems for U.S. MNCs that want to ensure their female executives receive overseas assignments equivalent to those given to their male colleagues.[3]

The international firm also must determine where various employees should come from—the home country, the host country, or third countries. The optimal mix of employees may differ according to the location of the firm's operations. A firm is likely to hire more employees from its home country to work in production facilities there than to work in foreign facilities. Local laws also must be considered because they may limit or constrain hiring practices. For example, immigration laws may limit the number of work visas granted to foreigners, or employment regulations may mandate the hiring of local citizens as a requirement for doing business in a country.

International businesses also face more complex training and development challenges. managers must provide cross-cultural training for corporate executives chosen for rseas assignments. Similarly, training systems for production workers in host countries st be adjusted to reflect the education offered by local school systems. For example, ause of the tradition of employment as a lifetime commitment, Toyota, like other large anese corporations, goes to great lengths to hire just the right people to work in its faces and offices. As the chapter opener revealed, it has nurtured partnerships with local lic school systems in Japan to help train and select future employees. However, Toyota not rely on this approach in each country in which it does business because local school tems often are not prepared to operate such training partnerships with individual firms. : German secondary school system provides extensive vocational training for its stuts, but that training is less firm specific. The United States, on the other hand, emphaes general education and provides only modest vocational training opportunities ough its public schools. Moreover, many countries have labor pools that, when meaed along any dimension, are uneducated and unskilled. Toyota thus has adjusted its ection, recruitment, and training practices to meet the requirements of the countries in ich it does business.

Finally, because working conditions and the cost of living may vary dramatically by intry, international HR managers often must tailor compensation systems to meet the ds of the host country's labor market. They must take into account variations in local rs, which may require the payment of a minimum wage or may mandate certain bene-, such as annual bonuses or health care coverage. These managers also must determine w to compensate executives on overseas assignments, who potentially face higher costs living, reductions in the quality of their lifestyle, and unhappiness or stress due to sepaion from friends and relatives.

rategic Significance of HRM

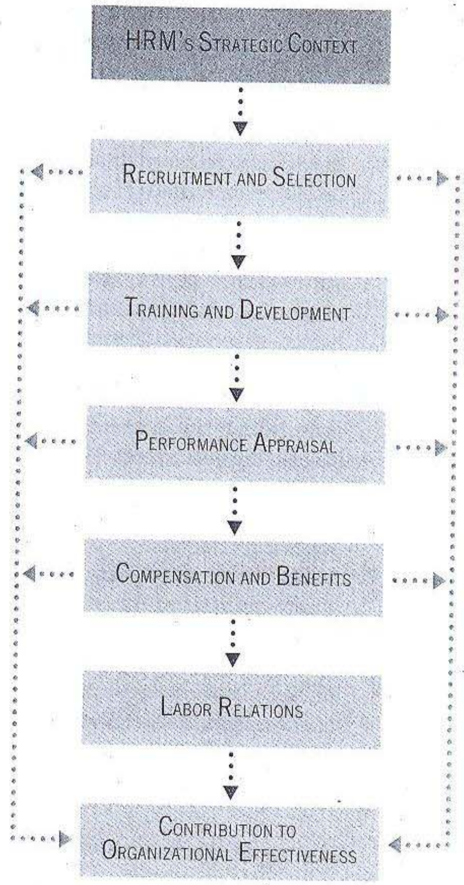
with marketing, operations, and finance, the firm's managers must design an HRM ategy that promotes the company's overall corporate and business strategies. The cul-al nuances inherent in international business heighten the complexities of developing an ective human resource strategy. The basic elements of the international HRM process shown in Figure 20.1, which provides the framework around which this chapter is orgaed. The starting point is recognizing and appreciating HRM's strategic position within firm and the interconnection between overall firm strategy and HRM strategy. For ample, suppose a firm decides to adopt a cost leadership strategy and subsequently idenies the opportunity to undercut competing firms by aggressively pricing its products in w international markets. In implementing this strategy, the firm could decide to purchase ore inputs from outside suppliers, or it could shift production to a country with low-cost oor, such as China or Indonesia. This production location decision could result in less ed for home country workers and more need for workers at the foreign facility. The m's HR managers thus would have to develop severance packages and provide outplaceent services for released workers in the home country as well as select, recruit, and train e new workers in the foreign country. Over time the firm's HR managers would have to just their HR practices to meet the conditions in the host country, which are likely to difr from those in the home country.

The decision to shift production overseas has other HR consequences. HR managers ve to select key managerial personnel to oversee the transfer of the firm's technology, erating policies, and proprietary skills to its new overseas factories. Regardless of the ills or abilities of the selected international managers, few of them will be able to walk to a foreign operation and know exactly how to do things from the first day they arrive. Thus HR managers must provide them with training to help them function more effectively in a new culture.

HR managers also must be prepared to define performance effectiveness and assess how well each international manager is doing relative to that definition. Moreover, international

FIGURE 20.1

The International Human Resource Management Process



managers must be compensated for their work. Further, companies invest a lot in their international managers, so HR managers must carefully assess how effectively their firm manages retention and turnover.

International Managerial Staffing Needs

The staffing issues confronting international HR managers can be divided into two broad categories. One of these is recruiting, training, and retaining managerial and executive employees. The other is recruiting, training, and retaining nonmanagerial employees, such as blue-collar production workers and white-collar office staff. For managerial employees strategic and developmental issues are of primary importance. For nonmanagerial workers differences in cultural, political, and legal conditions among countries may be of greater significance.

Scope of Internationalization

We begin by focusing on recruiting, training, and retaining managers. The size of this task depends on the scope of the firm's international involvement. Obviously, a firm's needs in the beginning stages of internationalization, such as in indirect exporting, are far less complex and comprehensive than those confronting an MNC with extensive investments in numerous countries. Consider the evolution of organizational structure discussed in Chapter 14:

1. *Export department*: A firm's initial foray into international business usually involves small-scale exporting using output from existing domestic production facilities. Its

international activities are administered by an export department, whose manager reports to an existing company executive such as the vice president of marketing. The manager is likely to be a citizen of the home country and may or may not have special training in overseas marketing and financing. As export sales increase, however, the firm quickly recognizes it must increase its staff's expertise, so it hires specialists in export documentation, international trade financing, and overseas distribution and marketing. These specialists often are recruited from international banks, international freight forwarders, or export management companies.

2. *International division*: As its international operations grow in importance, a firm often creates a separate international division to administer all of its international activities. Typically, a firm's international division is housed at corporate headquarters in its home country and is headed by a home country citizen to facilitate communication and coordination between the domestic and international operations. The heads of the firm's foreign subsidiaries in turn report to the vice president of the international division. These foreign subsidiaries' managers (including their presidents as well as heads of functional departments such as finance, marketing, and production) may be either home country or host country citizens. Use of a home country manager facilitates communication and coordination with corporate headquarters because of shared cultural and educational backgrounds.[4] Use of a host country manager often improves the subsidiary's ability to adjust to changes in local economic and political conditions. As we discuss later in this chapter, cost considerations also play a major role in the choice between home country and host country managers.
3. *Global organization*: A firm further along in the internationalization process often adopts a global organization form. (Chapter 14 discussed the global product, global functional, global area, and global customer forms.) Because of the complexity of its operations, a global organization must assemble a team of managers that have the expertise to produce, finance, and market its products worldwide while simultaneously coordinating its activities to achieve global production, financing, and marketing economies and synergies. To operate successfully, a global firm needs a team of managers that collectively possess expertise in and knowledge of the following:

   - The firm's *product line*: Product managers must be aware of such factors as the latest manufacturing techniques, research and development opportunities, and competitors' strategies.
   - The *functional skills* (accounting, logistics, marketing, manufacturing management, and so on) necessary to ensure global competitiveness: Functional specialists strive to capture global economies of scale and synergies in a firm's financial, marketing, and production activities.
   - The *individual country markets* in which the firm does business: Country managers must understand such factors as local laws, culture, competitors, distribution systems, and advertising media. These managers play a key role in meeting the needs of local customers, ensuring compliance with host country rules and regulations, and enlarging the firm's market share and profitability in the host country.
   - The firm's *global strategy*: High-level executives at corporate headquarters must formulate a global strategy for the firm and then control and coordinate the activities of the firm's product, functional, and country managers to ensure that its strategy is successfully implemented.

Centralization versus Decentralization of Control

An international business's HRM needs also are affected by whether the firm wants decision making to be centralized at corporate headquarters or delegated (decentralized) to operating subsidiaries. Firms that use a centralized approach often favor employing home country managers; firms that follow a decentralized decision-making philosophy are more likely to employ host country managers.

Certain organizational approaches and forms affect the choice of centralization or decentralization. Firms that view themselves as multi*domestic* rather than multi*national* are likely to favor decentralization of decision making. The global area form facilitates del-ating responsibility to managers of the firm's foreign subsidiaries. Conversely, the inter-tional division form favors centralizing decision making at corporate headquarters.

Recall from Chapter 14 that most international businesses operate somewhere along e continuum from pure centralization to pure decentralization. In managing human sources, most adopt an overall HRM strategy at the corporate headquarters level but del-gate many day-to-day HR issues to local and regional offices. Doing this allows each for-ign operation to meet its own needs and to more effectively deal with local conditions, cultures, and HR practices.

Staffing Philosophy

The extent of the firm's internationalization and its degree of centralization or decentralization affects (and is affected by) its philosophy regarding the nationality of its international managers. Firms can hire from three groups: parent country nationals, host country nationals, and third-country nationals.

Parent country nationals (PCNs) are residents of the international business's home country. Use of PCNs in an MNC's foreign operations provides many advantages to the firm. Because PCNs typically share a common culture and educational background with corporate headquarters staff, they facilitate communication and coordination with corporate headquarters. If the firm's global strategy involves exploiting new technologies or business techniques that were developed in the home market, PCNs often are best able to graft those innovations to a host country setting. For example, Mercedes sent a team of executives from Germany to oversee the start-up of its U.S. operations. It wanted to ensure that its manufacturing techniques and corporate commitment to quality were successfully transplanted to Alabama.

However, using PCNs has several disadvantages. PCNs typically lack knowledge of the host country's laws, culture, economic conditions, social structure, and political processes. Although PCNs can be trained to overcome these knowledge gaps, such training is expensive (particularly when the opportunity cost of the manager's time is considered) and is not a perfect substitute for having been born and raised in the host country. Further, PCNs are often expensive to relocate and maintain in the host country. Finally, many host countries restrict the number of foreign employees who can be transferred in and/or mandate that a certain percentage of an international firm's payroll must be paid to employees from the host country. Thus an international business may not have total freedom to hire whomever it wants for international assignments. Because of these factors, PCNs are most likely to be used in upper-level and/or technical positions in host countries.

Host country nationals (HCNs) are residents of the host country. HCNs are commonly used by international businesses to fill middle-level and lower-level jobs, but they also often appear in managerial and professional positions. Experienced MNCs such as Intel, Canadian Imperial Bank of Commerce, IBM, and Nortel Networks often hire HCNs instead of transferring home country employees to work in professional positions in the firms' foreign operations. Many smaller firms setting up operations abroad hire HCNs because the firms do not have enough managerial talent at home to send someone on a foreign assignment.[5] "Emerging Opportunities" provides more examples of how many firms are using this strategy in both China and India.

Using HCNs offers two primary advantages. First, HCNs already understand the local laws, culture, and economic conditions. Second, the firm avoids the expenses associated with expatriate managers, such as relocation costs, supplemental wages paid for foreign service, and private schooling for children. However, using HCNs can have disadvantages. HCNs may be unfamiliar with the firm's business culture and practices, thus limiting the effectiveness of the HCNs. As noted earlier in this chapter, Mercedes used German executives to shepherd the development of its U.S. operations to ensure that its new employees understood the firm's emphasis on producing quality automobiles.

EMERGING OPPORTUNITIES

Thinking Globally but Hiring Locally

When international businesses first began to aggressively move into China and India, they generally transferred expatriate managers from their home company to run these new operations. Among other reasons, the firms felt a need to try to export their corporate cultures and work procedures to the emerging markets they were entering; they also felt there was a lack of local managerial talent.

As recently as the mid-1990s, for example, virtually every U.S. company doing business in China filled most of its middle and upper management positions in that country with Americans. And the few positions not held by Americans were often filled with managers groomed in Singapore and Hong Kong, markets where these firms had operated for several years.

But in the 1990s things began to change. In China, for instance, many locals sharpened their English language skills, developed more leadership and decision-making skills, and became increasingly familiar and comfortable with the international business world. As a result, more and more locals are entering the ranks of middle and upper level managers today. It's estimated, for instance, that around 70 percent of foreign firms' top management positions in China are today filled by Chinese managers. This trend is not restricted to China; the same pattern is also occurring in India as well.

Nor is this pattern found only among U.S. firms in China. The German company Siemens, for instance, has Chinese nationals holding seven of its nine regional management positions there. And Ericsson, a Swedish telecommunications giant, currently fills 90 percent of its middle management positions and half of its top management positions in China with local managers.

Why are firms moving in this direction? There are actually several reasons. For one thing, hiring local managers is much cheaper. The company avoids costly relocation expenses and does not risk expatriate failure. Further, the compensation package for a local Chinese manager is only around 20 percent to 25 percent of that of a comparable manager transferred from a Western country. Local managers have a strong understanding of local market conditions, competitive behaviors, and government regulations. In addition, hiring locally can boost employee morale and motivation. The local manager has a strong understanding of cultural issues in the workplace and also serves as a symbol of advancement and success for other rising local managers.

Sources: "Firms in China Think Globally, Hire Locally," *Wall Street Journal*, February 27, 2006, pp. B1, B3; *Hoover's Handbook of World Business 2006* (Austin: Hoover's Business Press, 2006), pp. 129–130; 312–313.

Finally, an international firm may hire **third-country nationals (TCNs)**, who are not citizens of the firm's home country or of the host country. Like PCNs, TCNs are most likely to be used in upper-level and/or technical positions. TCNs and PCNs collectively are known as **expatriates**, or people working and residing in countries other than their native country. In the past TCNs were likely to be used when they had special expertise that was not available to the firm through any other channel. Today they are consciously being employed by some firms to promote a global outlook throughout their operations. Firms such as Nestlé and Philips NV rely heavily on TCNs because they believe those managers bring broader perspectives and experiences to the firms' host country operations. Further, some firms are recruiting more TCNs to serve on their boards of directors to help bring a more global orientation to the boards.

Most international firms develop a systematic strategy for choosing among HCNs, PCNs, and TCNs for various positions. Some firms rely on the **ethnocentric staffing model**, whereby they primarily use PCNs to staff higher-level foreign positions. This approach is based on the assumption that home office perspectives should take precedence over local perspectives and that expatriate PCNs will be most effective in representing the views of the home office in the foreign operation. Other international firms follow a **polycentric staffing model**; that is, they emphasize the use of HCNs in the belief that HCNs know the local market best. Finally, the **geocentric staffing model** puts PCNs, HCNs, and TCNs on an equal footing. Firms that adopt this approach want to hire the best person available, regardless of where that individual comes from.[6]

National culture often affects the staffing model chosen by a firm. European MNCs are more likely than U.S. or Japanese MNCs to adopt the geocentric approach. This approach is encouraged by the European Union to improve the mobility of workers and managers throughout its member countries. Japanese firms favor the ethnocentric staffing model, partly because their consensus-oriented approach to decision making is facilitated by employing Japanese managers in key roles in the firms' foreign subsidiaries. Japanese firms sometimes rely too heavily on this model, to their own disadvantage. Although they usually hire HCNs for lower-level positions, the firms are reluctant to use non-Japanese managers in higher-level positions. When the firms do hire an HCN as a local manager, they have been accused of being too quick to send in a troubleshooter from the home office at the first sign of a problem. Further, the non-Japanese managers often face a glass ceiling because the top positions in the firms are reserved for Japanese managers. Thus the ethnocentric policy often results in the loss of the best HCN managers, who seek more challenge and responsibility by shifting to non-Japanese employers.

Recruitment and Selection

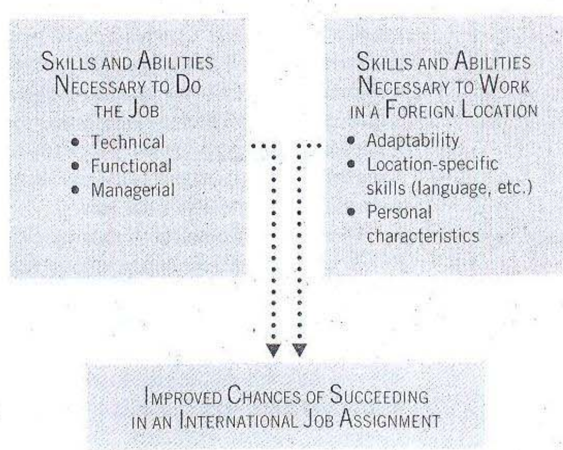
A firm's scope of internationalization, level of centralization, and staffing philosophy help determine the skills and abilities its international managers need. As shown in Figure 20.2, these skills and abilities fall into two general categories: those needed to do the job and those needed to work in a foreign location.

The firm first must define the actual business skills necessary to do the job. For example, a firm that has an assembly plant in a foreign market needs a plant manager who understands the technical aspects of what is to be manufactured, what manufacturing processes will be utilized, and so on. The firm's marketing managers must be knowledgeable about advertising media availability, distribution channels, market competition, and local consumers' demographic characteristics.

The firm next must determine the skills and abilities a manager must have to work and function effectively in the foreign location. These include the manager's ability to adapt to cultural change, ability to speak the local language, overall physical and emotional health, levels of independence and self-reliance, and appropriate levels of experience and education. Obviously, an HCN can meet these requirements far easier than a PCN or TCN can. Firms relying on the ethnocentric or geocentric staffing models thus must devote more resources to selecting and training PCNs and TCNs for foreign assignments than do firms that rely on the polycentric model.

FIGURE 20.2

Necessary Skills and Abilities for International Managers

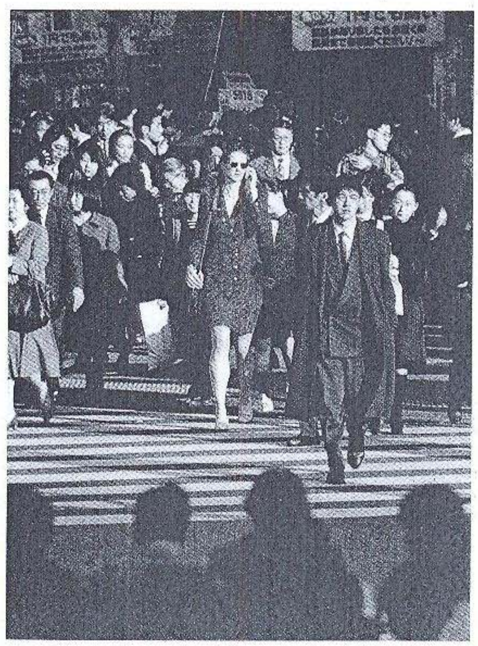


Recruitment of Managers

Once the international business determines the skills and abilities an international manager must have, it next must develop a pool of qualified applicants for the job and then recruit and select the best candidate.

Recruitment of Experienced Managers. International businesses recruit experienced managers through a variety of channels. A common source of recruits is within the firm itself—among employees already working for the firm in the host country or those who, although currently employed in the home country, might be prepared for an international assignment in the host country. The latter group may include both managers who have never held an international assignment and managers who have already completed previous international assignments. For example, when Kal Kan's Canadian subsidiary entered the animal-food market in Poland, the firm relied on a team of Polish-born Canadian executives to start up the new operation. Other companies are dipping into their pool of retired executives to fill short-term international assignments. Whirlpool rehired one of its retired senior engineers to help expand its Shanghai washing machine factory, and Quaker Oats sent a team of five retired employees to oversee the start-up of a cereal plant in that same city. Retired employees often are eager to take on such tasks. For example, Verizon has a pool of 725 former employees willing to tackle short-term foreign assignments.[7]

An international business also may attempt to identify prospective managers who work for other firms. These may be home country managers who are deemed to be qualified for an international assignment or managers already working in an international assignment for another firm. For higher-level positions firms often rely on so-called **headhunters** to help them locate prospective candidates. Headhunters are recruiting firms that actively seek qualified managers and other professionals for possible placement in positions in other organizations. In many parts of the world, including Japan, switching employers has long been frowned on; until recently, headhunting in Europe was considered unethical. Both of these views are changing, however. More firms are finding they can even entice highly qualified Japanese employees away from Japanese firms.



Selecting expatriates is an important element in international human resource management. It's important that individuals selected for foreign assignments, such as one young woman shown here, have relevant management competencies, be properly trained, and be adaptable to new situations—such as living and working in Tokyo.

A firm may sometimes find it useful to relocate its facilities to be closer to a pool of qualified employees. For example, when Upjohn and Pharmacia (U.S. and Swedish pharmaceutical firms, respectively) merged in the mid-1990s, they initially selected London for their new corporate headquarters. However, it quickly became apparent there was not an adequate pool of managerial and technical talent available locally to staff the enterprise. Because London is among the world's most expensive cities, transferring in managers from other locations was not cost effective. Thus the firm subsequently moved its headquarters to New Jersey, where many other drug companies are located. Managers reasoned this would place them closer to a large talent pool of managers with pharmaceutical industry experience and therefore make recruiting a bit easier.[8]

One trend seems clear: As a result of the globalization of business, the market for executive talent also is becoming globalized. For example, fewer than half of the 150 highest-level executives at Imperial Chemical Industries PLC, Britain's largest chemical manufacturer, are British nationals. Firms increasingly value performance more than nationality. Nomura Securities, Japan's largest stock brokerage firm, typifies this trend. Concerned about losses in its global market share, the firm turned to a seasoned U.S. securities executive, Max Chapman, to reinvigorate its global operations, which are headquartered in London.

Recruitment of Younger Managers. It is uncommon for large MNCs to hire new college graduates for immediate foreign assignments. Some firms, however, will hire new graduates they ultimately intend to send abroad and, in the short term, give the graduates domestic assignments. Particularly attractive are graduates with foreign-language skills, international travel experience, and a major in international business or a related field. A few firms have started taking a longer-term view of developing international managerial talent. Coca-Cola, for example, has developed an innovative strategy for recruiting managers for future international assignments. It actively seeks foreign students who are studying at U.S. colleges and universities and who intend to return to their home countries after receiving their degrees. The firm recruits and hires the best of these graduates and puts them through a one-year training program. The new managers then return home as Coca-Cola employees and take assignments in the firm's operations in their home countries.

Selection of Managers

After the pool of prospective managers has been identified, HR managers must decide which persons from that pool are the best qualified for the assignment. The most promising candidates share the following characteristics:

- Managerial competence (technical and leadership skills, knowledge of the corporate culture)
- Appropriate training (formal education, knowledge of the host market and its culture and language)
- Adaptability to new situations (ability to deal simultaneously with adjusting to a new work and job environment, adjusting to working with HCNs, and adjusting to a new national culture)

The importance of the selection process cannot be overstated when dealing with expatriate managers. The costs to a firm of expatriate failure are extremely high. **Expatriate failure** is the early return of an expatriate manager to the home country because of an inability to perform in the overseas assignment. Experts suggest these costs range from $40,000 to as much as $250,000 (these figures include the expatriate's original training, moving expenses, and lost managerial productivity but do not include the decreased performance of the foreign subsidiary itself). Expatriate failure occurs far too often. Failure rates of 20 to 50 percent are common for many U.S. firms, and rates appear to be much higher for them than for European and Japanese firms.[9]

The primary cause of expatriate failure is the inability of the managers and/or their spouse and family to adjust to the new locale. As a result, international HR managers increasingly are evaluating the nontechnical aspects of a candidate's suitability for a foreign assignment. Assessing certain skills and abilities is relatively easy. For example, measuring a prospect's language proficiency is a straightforward undertaking. Assessing a person's cultural adaptability is more difficult and must be accomplished through a variety of means. Most firms use a combination of tests (such as personality and aptitude tests) and interviews in their selection process. Assessment centers, which offer programs of exercises, tests, and interviews that last several days, are also useful because they provide an in-depth look at a set of prospective candidates under the same circumstances.

Another important consideration is the prospect's motivation for and interest in the foreign assignment.[10] Some managers are attracted to foreign assignments, perhaps because they relish the thought of living abroad or because they see the experience as being useful in their future career plans. Others balk at the thought of uprooting their family and moving to a foreign environment, particularly one that is culturally distant from their own. As previously noted, failure of the family to adjust to the new culture is a prominent cause of expatriate failure. Thus most firms also consider the family's motivation for and interest in the foreign assignment. The manager's job performance often will deteriorate if the manager has an unhappy spouse cut off from friends and family and frustrated by dealing with a new culture. Clearly a foreign relocation is far more disruptive to the family than a domestic relocation. Dependent children may face problems integrating into a new school culture—particularly if they do not speak the local language—and may find that material covered in the courses at their new school is well ahead (or well behind) that at their home school.[11] In addition, there is the dual-career problem. Trailing spouses may find it difficult to take leave from their current position, thereby forcing a disruption in their career advancement. Still worse, labor laws in the new country may make it difficult or impossible for the spouse to obtain employment there legally.

Because of the risk of expatriate failure, firms often devote considerable resources to selection and training.[12] AT&T, for example, prides itself on doing an especially thorough job of selecting managers for foreign assignments. The firm has long used personality tests and interviews as part of its selection process. It now also uses psychologists to help assess prospects and is investing more into learning about family considerations. In addition, the prospects complete a self-assessment checklist designed to help them probe their motivations for seeking a foreign transfer. Table 20.1 summarizes sample questions the firm uses to screen potential expatriates and their spouses. AT&T reports that this exercise increases managers' self-awareness. As a result, more managers now remove themselves from consideration for foreign assignments.

TABLE 20.1 AT&T's Questionnaire for Screening Overseas Transferees

Would your spouse be interrupting a career to accompany you on an international assignment? If so, how do you think this will affect your spouse and your relationship with each other?
Do you enjoy the challenge of making your own way in new situations?
Securing a job upon reentry will be primarily your responsibility. How do you feel about networking and being your own advocate?
How able are you in initiating new social contacts?
Can you imagine living without television?
How important is it for you to spend significant amounts of time with people of your own ethnic, racial, religious, and national background?
As you look at your personal history, can you isolate any episodes that indicate a real interest in learning about other peoples and cultures?
Has it been your habit to vacation in foreign countries?
Do you enjoy sampling foreign cuisines?
What is your tolerance for waiting for repairs?

Source: Consultants for International Living. From "As Costs of Overseas Assignments Climb, Firms Select Expatriates More Carefully," *Wall Street Journal*, January 9, 1992, p. B1. Reprinted by permission of the *Wall Street Journal*.

Some international businesses are concerned with not only how well a prospective manager will adapt to the foreign culture but also how well the person will fit into that culture.[13] For example, for years some U.S. firms hesitated to send women managers on foreign assignments to some countries, such as Japan, because the firms assumed the women would not be accepted in a culture that frowned on women working outside the home. However, research indicates that this fear is overstated. Host country citizens react primarily to these executives' foreignness, rather than to their gender.

Expatriation and Repatriation Issues

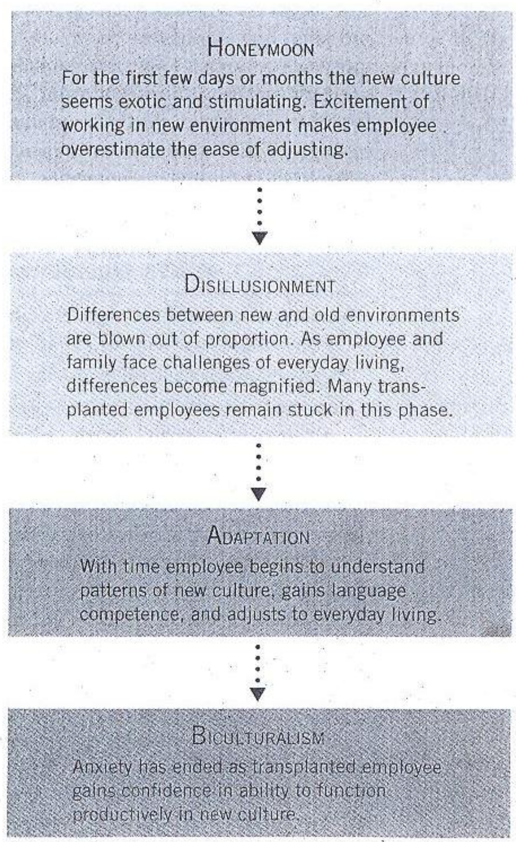
PCNs on long-term foreign assignments face great acculturation challenges. Working in and coping with a foreign culture can lead to **culture shock**, a psychological phenomenon that may lead to feelings of fear, helplessness, irritability, and disorientation. New expatriates may experience a sense of loss regarding their old cultural environment as well as confusion, rejection, self-doubt, and decreased self-esteem from working in a new and unfamiliar cultural setting.[14] Acculturation, as shown in Figure 20.3, typically proceeds through four phases.[15]

Culture shock reduces an expatriate's effectiveness and productivity, so international businesses have developed various strategies to mitigate its effects. One simple solution is to provide expatriates (and their families) with predeparture language and cultural training, so they can better understand and anticipate the cultural adjustments they must undergo. In addition to straightforward training, firms also might make initial foreign assignments relatively brief and make sure the expatriates understand the role each assignment plays in their overall career prospects.

Interestingly, international businesses should pay almost as much attention to **repatriation**—bringing a manager back home after a foreign assignment has been completed—as

FIGURE 20.3

Phases in Acculturation



they do to expatriation. If managers and their families have been successfully expatriated, they become comfortable with living and working in the foreign culture. Returning home can be almost as traumatic to them as was the original move abroad. One reason for the difficulty of repatriation is that people tend to assume nothing has changed at home. They look forward to getting back to their friends, familiar surroundings, and daily routines. Yet their friends may have moved or developed new social circles, and their co-workers may have been transferred to other jobs. Some expatriates who have returned to the United States have even been denied credit because they have not had a domestic financial history for several years![16]

Repatriated managers also have to cope with change and uncertainty at work. The firm may not be sure what their job is going to entail. Further, they may have been running the show at the foreign operation and enjoying considerable authority. Back home, however, the managers are likely to have much less authority and to be on a par with many other managers reporting to more senior managers. Also, repatriated managers and their families may have enjoyed a higher social status in the host country than they will enjoy after returning home. Thus readjustment problems may be severe and need the attention of both the managers and the firm.

The repatriation problem can be expensive for a firm. By some estimates one-quarter of all repatriated employees leave their employer within a year after returning home. The average U.S. expatriate costs the employer about $300,000 per year and stays three to four years on an overseas assignment; thus each repatriated executive who leaves the firm represents a million-dollar investment walking out the door.

The bottom line is that expatriation and repatriation problems can be reduced if international businesses systematically provide organizational career development programs for their expatriate managers.[17] Recent research indicates that the likelihood of managers being successful at an overseas assignment increases if the managers:

- Can freely choose whether to accept or reject the expatriate assignment
- Have been given a realistic preview of the new job and assignment
- Have been given a realistic expectation of what their repatriation assignment will be
- Have a mentor back home who will guard their interests and provide corporate and social support during the assignment
- See a clear link between the expatriate assignment and their long-term career path

Of these five elements, the last is the most critical in determining expatriate success.

Training and Development

The international firm's HR managers also must provide training and development for its home and host country managers to help them perform more effectively. **Training** is instruction directed at enhancing specific job-related skills and abilities. For example, training programs might be designed to help employees learn to speak a foreign language, to use new equipment, or to implement new manufacturing procedures. Special acculturation training is important for employees who are given international assignments. **Development** is general education concerned with preparing managers for new assignments and/or higher-level positions. For instance, a development program could be aimed at helping managers improve their ability to make decisions or to motivate subordinates to work harder.

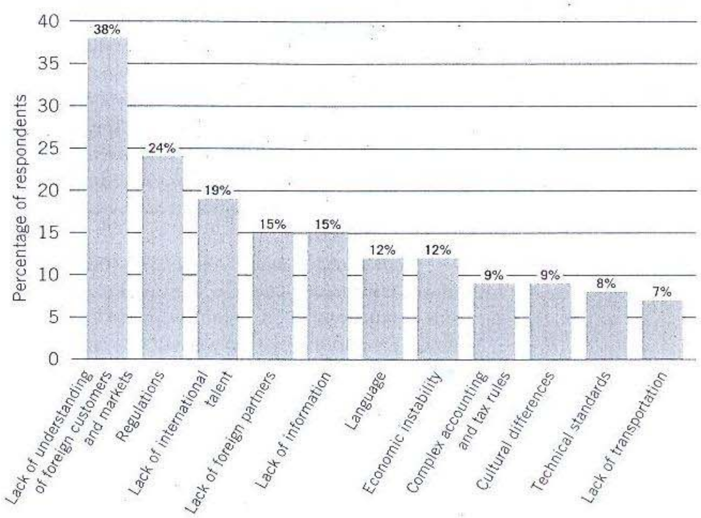
Assessing Training Needs

Before a firm can undertake a meaningful training or development program, it must assess its exact training and development needs. This assessment involves determining the difference between what managers and employees can do and what the firm feels they need to be able to do. For example, suppose a firm that does business in Latin America wants its employees to be able to speak Spanish fluently. If most of its employees are fluent in Spanish, its language-training needs may be minimal, but if relatively few employees are fluent, extensive training may be called for. The assessment of training needs is an extremely important element of international HRM. Firms that underestimate training needs can encounter serious difficulties.

FIGURE 20.4

Barriers to Entering Foreign Markets

Source: From "Cross-cultural Training Helps in Leap Abroad," *Houston Chronicle*, September 25, 1994, p. 1E. Reprinted with permission. Data: Ernst & Young survey.



Indeed, lack of knowledge about foreign customers and markets is a major barrier to successful entry into such markets, as Figure 20.4 shows.

A firm just moving into international markets has different training and development needs from those of an established global firm. The newly internationalizing firm is likely to have few, if any, experienced international managers. Thus its training and development needs will be substantial. In contrast, a global firm has a cadre of trained and experienced managers with international backgrounds, skills, and abilities. Yet even then, organization change may necessitate training. For instance, when Jaguar took over a plant in England that had formerly been making Ford Escorts, managers found a workforce that was dispirited and unwilling to accept responsibility for making decisions. All employees were thus sent to several training workshops intended to both enhance their technical skills and to empower them to make key decisions for themselves.[18]

Basic Training Methods and Procedures

The first issue an international business must consider as it plans its training and development efforts is whether to rely on standardized programs or to develop its own customized programs. Certain kinds of training can be readily obtained in common retail outlets—for example, self-paced language training on cassette tapes or CDs. Prudential Insurance even offers packaged training programs for families of expatriates, a good idea in light of the importance of family problems in causing expatriate failure. One advantage of standardized programs is that they tend to be less expensive than customized ones. On the other hand, a standardized program may not precisely fit the firm's needs.

As a result, most training and development programs often are customized to a firm's particular needs. Larger MNCs often have training and development departments that develop customized programs for the unique needs of individual managers and/or business units. Training and development activities may take place in regular classroom settings within the firm, on actual job sites, or off premises in a conference center or hotel. Customized programs are more costly than standardized programs; however, they ensure that employees get the precise information deemed necessary. Regardless of whether training and development programs are standardized or customized, most use a variety of methods as instructional vehicles. Lectures and assigned readings are common, as are videotaped and Web-based instruction. Multimedia technologies are increasingly being incorporated into cross-cultural training. According to Sanjyot Dunung, president of Atma Global, one of the innovators in this area, MNCs increasingly desire globally consistent but flexible delivery of cross-cultural training for their employees. Multimedia approaches allow employees spread throughout the globe to access training materials at their convenience at any time of day or night.

Role-playing and other forms of experiential exercises are useful for helping people better understand other cultures. Motorola uses a workplace simulation to help prepare its managers for foreign assignments.[19] Case studies also are used, although not as frequently as other methods. Training materials often must be altered to fit different cultural contexts. For example, a consultant hired to make training videos for Bally of Switzerland initially assumed he could use the same basic video for each of Bally's regional offices, with only minor script modifications. As the project progressed, however, he found that so many language and cultural differences affected the video that he essentially had to reshoot it for each office.

The trainers themselves also may need to adapt how they do things. One professional trainer reported difficulties in using her normal style when running a training program in Thailand. She preferred to be informal and to involve the participants through role-playing and other forms of interaction. She found, however, that Thai managers were uncomfortable with her informality and resisted the role-playing approach. She eventually had to adopt a more formal style and use a straightforward lecture approach to get her points across.[20]

Developing Younger International Managers

The increasing globalization of business has prompted most MNCs to recognize the importance of internationalizing their managers earlier in their careers. Until the late 1980s most U.S. MNCs delayed giving their managers significant overseas assignments until they had spent 7 to 10 years with the firm. Today many of these MNCs are beginning to recognize that they need to develop the international awareness and competence of their managers earlier and to systematically integrate international assignments into individual career plans. For example, GE provides language and cross-cultural training to its professional staff even though they may not be scheduled for overseas postings. Such training is important because these employees, even if they never leave their home countries, are likely to work with GE employees from other countries and to deal with visiting executives from GE's foreign partners, suppliers, and customers. Such training also helps the employees gain a better understanding of the firm's international markets. Other firms, such as American Express and Johnson & Johnson, occasionally post managers to overseas assignments after only 18 to 20 months on the job. PepsiCo and Raychem are bringing young managers from the firms' foreign operations to the United States to enrich the managers' understanding of their firms' cultures and technologies.

U.S. firms are not the only ones integrating international assignments into career development plans for younger managers. Honda's U.S. manufacturing subsidiary has been sending U.S. managers to Tokyo for multiyear assignments so they can learn more about the firm's successful manufacturing and operating philosophies. Samsung regularly sends its executives abroad for various assignments. One of its more interesting strategies is to send younger managers to certain foreign locations for as long as a year with no specific job responsibilities. The managers are supposed to spend their time learning the local language and becoming familiar with the culture. The idea is that if they are transferred back to that same location in the future—when they are in a higher-level position—they will be able to function more effectively. Even though the program costs Samsung about $80,000 per person per year, executives believe the firm will quickly recoup its investment.

Performance Appraisal and Compensation

Another important part of international HRM consists of conducting performance appraisals and determining compensation and benefits. Whereas recruitment, selection, and training and development tend to focus on preassignment issues, performance appraisal and compensation involve ongoing issues that continue to have an effect well past the initial international assignment.

Assessing Performance in International Business

Performance appraisal is the process of assessing how effectively people are performing their jobs. The purposes of performance appraisal are to provide feedback to individuals on how well they are doing; to provide a basis for rewarding top performers; to identify areas in which additional training and development may be needed; and to identify problem areas that may call for a change in assignment.

Performance appraisals of an international business's top managers must be based on the firm's clear understanding of its goals for its foreign operations. A successful subsidiary in a mature and stable foreign market will have different goals than will a start-up operation in a growing but unstable market. Thus a firm assigning two new managers to head these different subsidiaries must understand that it cannot expect the same outcome from each of them. Similarly, managers of foreign subsidiaries that serve as cost centers must be judged by different standards from those used for managers of profit centers.

In assessing a manager's actual performance, the firm may consider sales, profit margin, market share growth, or any other measures or indicators it deems important. If a subsidiary has been having problems, performance may be more appropriately assessed in terms of how well the manager has helped to solve those problems. For example, reducing net losses or halting a decline in market share might be considered good performance, at least in the short term.

Expected and actual performance must be compared, and differences must be addressed. This step needs to have a strong diagnostic component: Why and how has the manager's performance been acceptable or unacceptable? Are any problems attributable to the manager's lack of skills? Are some problems attributable to unforeseen circumstances? Is the home office accountable for some of the problems that may have arisen, perhaps because the manager was inadequately trained? Of course, cultural values may shape expectations—an individualistic culture will attribute more of the organization's performance to the individual manager than a collectivist one—thus complicating performance appraisal when the appraiser and the appraisee come from different cultures.

Circumstances will dictate how frequently performance appraisals occur. In a domestic firm they may occur as often as every quarter. Geographical factors, however, can limit the frequency with which international performance appraisals can occur. Generally, international managers are expected to submit reports on performance-based results to headquarters regularly. As long as these reports fall within acceptable parameters, the firm is likely to conduct a formal performance appraisal perhaps on an annual basis. However, if standard reports reveal a problem, performance appraisals may be done more often in an effort to get things back on track.

Determining Compensation in International Business

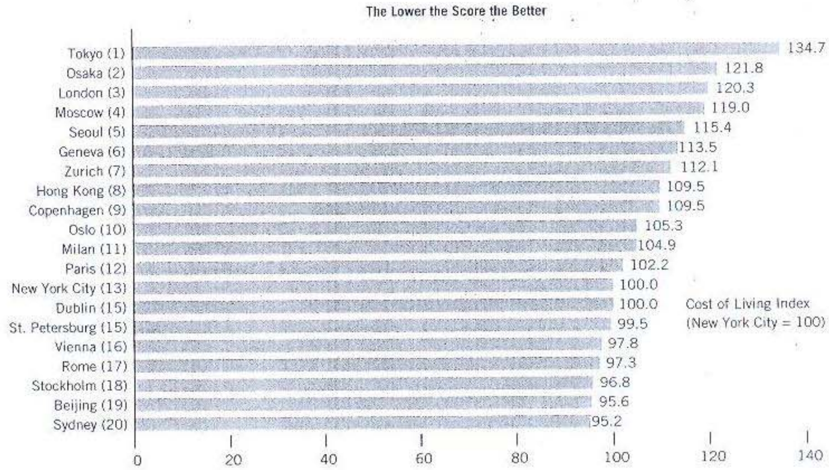
Another important issue in international HRM is determining managerial compensation. To remain competitive, firms must provide prevailing compensation packages for their managers in a given market. These packages include salary and nonsalary items and are determined by labor market forces such as the supply and demand of managerial talent, occupational status, professional licensing requirements, standards of living, government regulations, tax codes, and similar factors. For example, in Germany employers customarily reimburse their executives for car expenses. In Japan the executive may actually get a car plus expenses. Japanese executives also receive generous entertainment allowances and an allowance for business gifts. Similarly, British companies typically provide company cars to managers. In the United States firms offer managers health care benefits because such benefits are free from income taxes.

Compensating Expatriate Managers. A more complex set of compensation issues apply to expatriate managers. Most international businesses find it necessary to provide these managers with differential compensation to make up for dramatic differences in currency valuation, standards of living, lifestyle norms, and so on.[21] When managers are on short-term assignments abroad, their home country salaries normally continue unchanged.

FIGURE 20.5

Global Cost of Living Survey

Sources: Worldwide Cost of Living Survey 2005, Mercer Human Resources Consulting Axiss Australia. © Commonwealth of Australia 2006.



(Of course, the managers are reimbursed for short-term living expenses such as for hotel rooms, meals, and transportation.) If foreign assignments are indefinite or longer term, compensation is routinely adjusted to allow the managers to maintain their home country standard of living. This adjustment is particularly important if a manager is transferred from a low-cost location to a high-cost location or from a country with a high standard of living to one with a lower standard of living. Figure 20.5 summarizes cost-of-living differences for the 20 most expensive international business centers.

The starting point in differential compensation is a **cost-of-living allowance**. This allowance is intended to offset differences in the cost of living in the home and host countries. The premise is that a manager who accepts a foreign assignment is entitled to the same standard of living the manager enjoyed at home. If the cost of living in the foreign country is higher than that at home, the manager's existing base pay will result in a lower standard of living, and the firm will supplement the base pay to offset this difference. Of course, if the cost of living in the foreign location is lower than at home, no such allowance is needed.

Sometimes firms find they must supplement base pay to get a manager to accept an assignment in a relatively unattractive location. Although it may not be difficult to find people willing to move to England or Japan, it may be much more difficult to entice people to move to Sudan or Afghanistan. Called either a **hardship premium** or a **foreign-service premium**, this supplement is essentially an inducement to the individual to accept the international assignment. For instance, the French oil company TotalFinaElf wanted to transfer managers back to its operations in Angola when that country's bloody civil war ended; it found that it had to offer a substantial foreign-service premium to entice anyone to go. Even then, those executives also insisted that their assignment in Angola would last for one year or less. As discussed in "Bringing the World into Focus," some settings for foreign assignments are so troublesome that new businesses have sprung up to provide safety and security.

Finally, many international businesses also find they must set up a tax equalization system. A **tax equalization system** is a means of ensuring that the expatriate's after-tax income in the host country is similar to what the person's after-tax income would be in the home country. Each country has unique tax laws that apply to the earnings of its own citizens, to earnings within its borders by foreign citizens, and/or to earnings in another country by its own citizens. The most common tax equalization system has the firm's own accounting department handling the taxes of its expatriates. An accountant from the firm determines what a manager's taxes will be where the manager is living and what they would be at home on the same income and then makes the appropriate adjustment to equalize the two.

BRINGING THE WORLD INTO FOCUS

Seeing Opportunity in Security

The safety and security of employees posted to foreign assignments are a continuing concern for multinational enterprises. In some locations, such as Colombia, local criminals specialize in kidnapping foreigners and/or their families and then demanding the payment of a ransom. Executives are common targets because of the presumption that their employers will pay large sums to secure their release. Other trouble spots are worrisome because of political instability. Recent problems of this type have arisen in Sierra Leone, Indonesia, and the Middle East.

Entrepreneurs sometimes see opportunities in such situations. For instance, local businesses in many unstable and/or hazardous areas often provide personal security services, sell bulletproof glass for car and apartment windows, and offer information about unsafe areas. When problems do arise, local entrepreneurs often are involved in negotiations and investigations.

A particularly successful new enterprise is Air Partner, a British company that specializes in evacuating people when trouble erupts unexpectedly. The founder of Air Partner, Alan Marler, learned that although most MNCs have thoughtful plans for getting their employees out of foreign settings when a problem arises, these plans often go awry because an airplane is not available. Thus Marler maintains reliable access to aircraft and has a long list of international clients who will pay to get their employees out on a moment's notice.

Air Partner has successfully evacuated MNC employees out of tough spots in Chechnya, Kuwait, Saudi Arabia, Albania, the West Indies, and Indonesia. For example, during political unrest in 1999 the firm safely pulled 250 Western executives and their families out of Indonesia. The price? Some firms pay a retainer of $60,000 a year to Air Partner to help as needed. Others pay a flat price of $15,000 per person for its evacuation services.

Source: "Flight to Safety," *Forbes*, May 29, 2000, pp. 166–16.

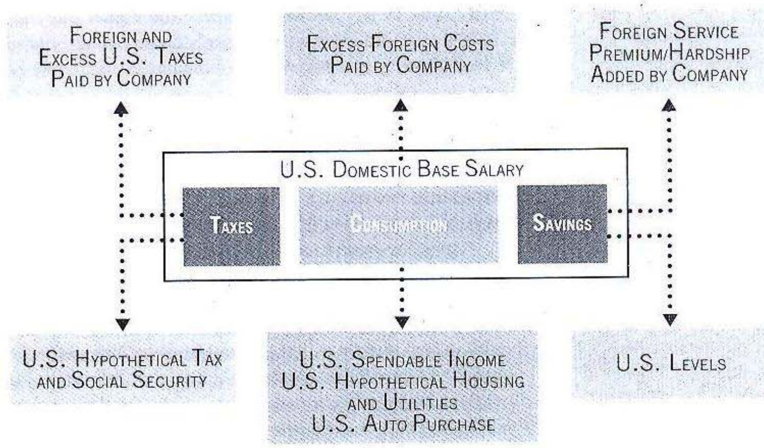
Figure 20.6 shows how one major oil company creates compensation packages for its expatriate managers. The blocks in the center reflect an individual's U.S. base compensation prior to being posted to an international assignment. After an assignment has been made, the blocks above and below are used to calculate appropriate adjustments to the employee's compensation. For example, suppose a U.S. executive being transferred abroad currently earns $100,000, of which $25,000 is paid in taxes, $10,000 is saved, and the remaining $65,000 consumed. Further suppose that the executive currently spends $2,000 a month on housing (mortgage plus utilities). The firm will adjust the executive's total compensation to make it as equal as possible to that currently earned in the United States. Assume that housing and utilities in the host country cost about 20 percent more than in the United States, and other consumables cost about 10 percent more. Thus the firm will pay the executive a supplemental housing allowance that is equal to what the executive currently pays times 20 percent, or a total of $400 a month. The remaining part of the executive's consumption spending will be increased by 10 percent. Similar adjustments will be made to the other components of Figure 20.6.

Benefits Packages for Expatriate Managers. International businesses must provide not only salary adjustments but also special forms of benefits for their expatriate managers in addition to standard benefits such as health insurance and vacation allowances. Special benefits include housing, education, medical treatment, travel to the home country, and club memberships.

A common special benefit involves housing. Like other components of living costs, housing expenses vary in different areas. Duplicating the level of housing the executive enjoyed in the home country may be expensive, so housing often is treated as a separate benefit. If a manager is going on permanent or long-term assignment, the firm may buy the manager's existing home at fair-market value. The firm also may help the manager buy a house in the host country if housing costs or interest rates are substantially different from those at home.

FIGURE 20.6

An Expatriate Balance Sheet



If the expatriate manager has a family, the firm may need to provide job location assistance for the spouse and help cover education costs for children. For example, children may need to attend private school, which the firm would pay for. Schooling represents a particularly important problem for Japanese expatriate managers, whose children may not do well in the national entrance exams for the most prestigious Japanese universities if their Japanese reading and writing skills atrophy as a result of living abroad. Thus many Japanese firms pay for their expatriates' children to attend private schools that help students cram for those exams.

Medical benefits also may need to be adjusted. For example, some people consider Malaysian health care facilities inadequate. Thus managers on assignment there often request that their employer send them to Singapore whenever they need medical attention.

Most international businesses provide expatriates with a travel allowance for trips to the home country for personal reasons, such as to visit other family members or to celebrate holidays. Managers and their families may be allowed one or two trips home per year at company expense. If a manager's family remains at home during a short-term assignment, the manager may be given more frequent opportunities to travel home.

In some cultures belonging to a certain club or participating in a particular activity is a necessary part of the business world. In Japan, for example, many business transactions occur during a round of golf. To be effective in Japan, a foreign manager may need to join a golf club. Memberships in such clubs, however, cost thousands of dollars, and a single round of golf may cost 10 times or more what it costs elsewhere. Because such activities are a normal part of doing business, firms often provide managers transferred to Japan with these benefits.

Equity in Compensation. Thus far our discussion of compensating expatriate managers has not addressed the issue of equity between the compensation granted expatriate managers and that given to HCNs in similar positions. Often the compensation package offered the expatriate manager is much more lucrative than that offered an HCN occupying an equivalent position of power and responsibility. The equity issue becomes even more complicated when dealing with TCNs. For example, if a U.S. international oil firm transfers a Venezuelan executive to its Peruvian operations, should the Venezuelan be paid according to Peruvian, Venezuelan, or U.S. standards?

Unfortunately there is no simple solution to this problem, and MNCs use a variety of approaches in grappling with it. Hewlett-Packard pays expatriates on short-term assignments according to home country standards and those on long-term assignments according to host country standards. Minnesota Mining & Manufacturing (3M) compares the compensation package it offers in the expatriate's home country with what it normally pays

HCNs and then gives the expatriate the higher pay package. Phillips Petroleum pegs a TCN's salary to that of the person's home country but offers housing allowances, educational benefits, and home leaves based on costs in the host country.

Retention and Turnover

Another important element of international HRM focuses on retention and turnover. **Retention** is the extent to which a firm is able to retain valued employees. **Turnover**, essentially the opposite, is the rate at which people leave a firm.

People choose to leave a firm for any number of reasons—for example, dissatisfaction with their current pay or promotion opportunities or receipt of a better offer to work elsewhere. Turnover is often a result of job transitions such as those associated with expatriation and repatriation: A worker contemplating changing work locations also may consider changing employers. Turnover is a particular problem in international business because of the high cost of developing managers' international business skills. Managers with strong reputations for having those skills are in high demand. As noted earlier, some firms even rely on headhunters to help them locate prospective managers currently working for other firms. For exactly the same reason—a scarcity of skilled, experienced managers—keeping successful managers should be a high priority for any international business. One way to control managerial turnover is to develop strategies designed to reduce expatriate failure and repatriate failure. These may include providing career development counseling or cross-cultural training to ease the stress of relocation.

A firm also may have to provide special inducements or incentives to its most valuable international managers. They may receive higher salaries or be given a greater say in choosing their assignments. The firm also may make stronger guarantees to them regarding the time frame of their assignments. For example, a firm may want to hire a particularly skillful TCN to run its operation in Italy. Because of the costs and other problems associated with relocation, the individual may consider the assignment only if the firm guarantees the assignment will last for a minimum of, say, five years.

Another important element of turnover management is the **exit interview**. An exit interview is an interview with an employee who is leaving a firm. Its purpose is to find out as much as possible about why the person decided to leave. Given the distances involved in international business, however, firms may be reluctant to do exit interviews. Yet the potential value of the information gleaned is high: Managers can use it to reduce future employee losses. Thus firms should give careful consideration to using such interviews as part of their strategy for reducing turnover.

Human Resource Issues for Nonmanagerial Employees

Next, we shift the focus of our discussion of HR issues to nonmanagerial employees in host countries. The standard HRM tasks associated with nonmanagerial employees—recruitment, selection, training, compensation, and so on—are strongly influenced by local laws, culture, and economic conditions. To prosper in the host country environment, HR managers must not fall prey to their own self-referencing criteria. They must be willing to do things the way the locals want, not the way things are done at home. In short, "When in Rome, do as the Romans do." Thus many MNCs hire HCNs to staff their HR operations, so the local knowledge of the HCNs can be incorporated into the policies and procedures of the HR department.

Recruitment and Selection

In international firms' foreign operations nonmanagerial employees, such as blue-collar production workers and white-collar office workers, are typically HCNs. In most cases there are economic reasons for this decision: HCNs are usually cheaper to employ than are PCNs or TCNs. HCNs also are used because local laws often promote the hiring of locals.

Immigration and visa laws, for example, typically restrict jobs to citizens and legal residents of the country. A few exceptions to this rule exist. Construction firms in rich countries like Saudi Arabia and Kuwait often use Bangladeshi or Pakistani labor because local citizens dislike the working conditions. Oil firms and airlines often employ PCNs and TCNs for high-skilled jobs such as drilling supervisor and pilot.

Nonetheless, an international business must develop and implement a plan for recruiting and selecting its employees in a host country market.[22] This plan should include assessments of the firm's human resources needs, sources of labor, labor force skills and talents, and training requirements, and also should account for special circumstances that exist in the local labor market. The chapter opening, for example, detailed how Toyota goes about recruiting and selecting U.S. employees for its U.S. production facilities.

When firms are hiring PCNs for foreign assignments, the firms must adhere to their home country's hiring regulations, laws, and norms. When hiring HCNs, the firms must be aware of those regulations, laws, and norms within the host country. For example, in the United States laws and regulations prohibit a firm from discriminating against someone on the basis of gender, race, age, religion, and other characteristics. Toyota had to ensure that during its selection of its U.S. employees, it did not violate any of those laws and regulations. Because of these restrictions, the selection process in the United States emphasizes job relatedness. Job-related criteria such as skills, abilities, and education can be used to hire employees; nonjob-related criteria such as gender or age cannot. In some countries characteristics such as gender, religion, and skin color are commonly used in hiring decisions. For example, firms in Israel and Northern Ireland often discriminate on the basis of religion, and those in Saudi Arabia discriminate on the basis of gender.

Training and Development

HR managers also must assess the training and development needs of the host country's workforces to help them perform their jobs more effectively. The training and development needs of local workforces depend on several factors. An important one is the location of the foreign operation. In highly industrialized markets firms usually find a nucleus of capable workers who may need only a bit of firm-specific training. In an area that is relatively underdeveloped, training needs will be much greater. For example, when Hilton began operating hotels in Eastern Europe, it found that waiters, hotel clerks, and other customer service employees lacked the basic skills necessary to provide high-quality service to guests. These employees were so accustomed to working in a planned economy, where there was little or no need to worry about customer satisfaction, that they had difficulty recognizing why they needed to change their workplace behavior. Hilton had to invest much more in training new employees there than it had anticipated.

Training also is a critical element if an international business wants to take full advantage of locating production abroad. In recent years MNCs have shown a marked tendency to move facilities to certain areas, such as Honduras, Malaysia, and Indonesia, to capitalize on inexpensive labor. But often the productivity of this labor is low, unless the firm is willing to invest in workforce training. In Malaysia, for example, only one-third of adults have more than a sixth-grade education; thus training costs there can be quite high. The owner of Quality Coils, Inc., a U.S. maker of electromagnetic coils, closed the firm's plant in Connecticut and opened a plant in Ciudad Juarez, Mexico, because hourly wage rates there were one-third the wage rates in Connecticut. The owner soon discovered, however, that productivity was also only one-third of what it had been in Connecticut. This, combined with higher absenteeism and the personal costs of running a facility in Mexico, prompted the owner to move the operation back to Connecticut.[23]

Training costs sometimes arise for reasons the firm might not have anticipated. For example, when Merrill Lynch bought Japan's fourth-largest brokerage company, Yamaichi Securities, it thought it was also gaining a cadre of 2,000 talented and experienced brokers familiar with their domestic market. But Merrill Lynch soon discovered that while Yamaichi brokers knew how to handle stock transactions, they were unfamiliar with concepts associated with customer service and working to understand customer investment goals before making stock recommendations. Hence, Merrill had to invest heavily in training its new brokers in how it wanted them to work with clients.[24]

Compensation and Performance Appraisal

Compensation and performance appraisal practices for nonmanagerial employees also differ dramatically among countries, depending on local laws, customs, and cultures. Individualistic cultures such as that of the United States focus on assessing the individual's performance and then compensating the person accordingly. More group-oriented cultures such as Japan's emphasize training and motivating the group and place less emphasis on individual performance appraisal and compensation. The HR manager at each foreign operation must develop and implement a performance appraisal and reporting system most appropriate for that setting, given the nature of the work being performed and the cultural context. For example, although U.S. workers often appreciate feedback from the appraisal system—thereby allowing them to do better in the future—German workers are often resentful of feedback, believing it requires them to admit failures and shortcomings.[25]

Compensation practices also reflect local laws, culture, and economic conditions. Prevailing wage rates vary among countries, which has caused many labor-intensive industries to migrate to countries such as Malaysia, Indonesia, and Guatemala. To attract workers, HR managers must ensure their firms' wage scales are consistent with local norms. (See "Bringing the World Into Focus" for an example of how local norms may be challenged by adoption of foreign compensation techniques.)

BRINGING THE WORLD INTO FOCUS

American-Style Management Comes to Global Dining

Hayato Miyauchi stood in front of 18 co-workers and asked for higher pay. His colleagues first criticized his personality and performance while Miyauchi slouched in embarrassment. The group then voted against the raise. This tough evaluation procedure is shocking in conflict-averse Japan. But Global-Dining, a Japanese restaurant corporation founded by Kozo Hasegawa, has adopted a U.S.-style pay-for-performance system. Sounding like an American CEO, Hasegawa asserts, "Just as sharks need to keep swimming to stay alive, we only want people who are constantly craving challenges."

Traditional Japanese management is consensual and arguments are rare. Pay is based on seniority and group achievement; lifelong employment is the norm. In contrast, most workplaces in the United States are characterized by disagreement, frank discussions, performance-based compensation, and competition for advancement. By switching to Americanized methods, Global-Dining challenges strongly held Japanese values. Differences include team versus individual reward systems, a firm's loyalty to its workers, and managers' responsibility for their subordinates' poor performance.

Global-Dining's system sets clearly defined goals, then rewards high performers generously. One 27-year-old manager made $150,000—more than most senior executives in Japan. But poor performers receive no bonus, lose pay, are demoted, and may be fired. Employees watch each other constantly and report to management. Every employee's pay is posted publicly. *Wall Street Journal* writer Yumiko Ono says, "It's U.S.-style performance-based pay on steroids."

Global-Dining's style can be inflexible, for example, penalizing workers for poor performance due to other factors. Koki Ohta, a 14-year veteran, was blamed by Hasegawa for the failure of a new restaurant concept. Surprisingly for the obedient and respectful Japanese, other managers protested and insisted on a vote. One manager said, "I'm afraid that good people might quit." But Hasegawa defended his plan, replying, "This is designed to light a fire under all of you." In spite of the managers' support, Ohta left Global-Dining, saying, "You can't always measure everything by numbers. I don't think that was really fair."

Yet for the most part, the pay-for-performance system is working. Global-Dining represents the leading edge of change in tradition-bound Japan. "There is no question that the Japanese personnel system is at a crossroads," says Iwao Nakatani, a director at Sony. Nakatani claims that if Japanese companies don't update their methods, "they're not going to survive in this age of global competition."

Source: "A Restaurant Chain in Japan Chops Up the Social Contract," *Wall Street Journal*, January 17, 2001, pp. A1, A19.

Compensation packages entail incentive payments and benefit programs in addition to wages. International business researchers have found that the mix among wages, benefits, and incentive payments varies as a function of national culture. For example, wages on average accounted for 85 percent of the total compensation package for workers in 41 manufacturing industries in four Asian countries. However, wages amounted to only 56 percent of the total compensation package for workers in those same industries in five "Latin European" countries. By adjusting the composition of the compensation package to meet local norms, HR managers ensure their workers (and the firm) get the maximum value from each compensation dollar spent.[26] Local laws also affect an international firm's compensation policies. For example, Mexican law requires employers to provide paid maternity leave, a Christmas bonus of 15 days' pay, and at least three months' severance pay for dismissed workers. Local norms may also have an impact on compensation costs. In Sweden, workers use more sick leave than is the case in other countries—an average of 24.4 days per year, four times as much as U.S. workers and twice as much as the average Danish, German or Spanish employee.[27]

Labor Relations

A final component of international HRM is labor relations. Because of their complexity and importance, labor relations often are handled as a separate organizational function, apart from human resource management.

Comparative Labor Relations

Labor relations in a host country often reflect its laws, culture, social structure, and economic conditions. For example, membership in U.S. labor unions has been steadily declining in recent years and today constitutes less than 15 percent of the country's total workforce. Labor relations in the United States are heavily regulated by various laws, and both the actions of management toward labor and the actions of labor toward management are heavily restricted. Further, the formal labor agreement negotiated between a firm and a union is a binding contract enforceable in a court of law. Because of the heavy regulation, most negotiations are relatively formal and mechanical, with both parties relying on the letter of law.

Striking labor union members shout slogans during an anti-government rally demanding better working conditions and wage hikes near the presidential palace in Seoul, days before of the opening of the 2002 FIFA World Cup.

A different situation exists in many other countries. In some countries union membership is very high and continues to grow. Over half the world's workforce outside the United States belongs to labor unions. In Europe labor unions are much more important than in the United States. Labor unions in many European countries are aligned with political parties, and their fortunes ebb and flow as a function of which party currently controls the government. Throughout most of Europe temporary work stoppages are frequently used by unions in a bid for public backing for their demands. For example, the transport workers' union in Paris often calls for day-long work stoppages that result in the city's buses, subways, and railroads being totally shut down. The union hopes the inconvenienced public will call on elected officials to do whatever it takes to avoid such disruptions in the future. Foreign firms that try to alter prevailing host country labor relations may be buying trouble. For example, Toys 'R' Us's unwillingness to adopt the standard collective bargaining agreement used by most Swedish retailers led to a three-month strike against the firm and denunciations by labor leaders who branded the firm "an anti-union interloper bent on breaking established traditions in Sweden," which was not the public image the firm was trying to create.[28] Likewise, German retail unions used short but frequent work stoppages to try to get Wal-Mart to meet more of their demands.

In contrast, labor relations in Japan tend to be cordial. Labor unions usually are created and run by businesses themselves. Unions and management tend to work cooperatively toward their mutual best interests. The Japanese culture discourages confrontation and hostility, and these norms carry over into labor relations. Disputes are normally resolved cordially and through mutual agreement. In the rare event that a third-party mediator is necessary, there is seldom any hard feelings or hostility after a decision has been rendered. Thus strikes are relatively rare in Japan.

Collective Bargaining

Collective bargaining is the process used to make agreements between management and labor unions. As already noted, collective bargaining in the United States is highly regulated. Aside from passing the laws that regulate the process, however, government plays a relatively passive role in establishing labor agreements. Union and management representatives meet and negotiate a contract. That contract governs their collective working relationship until the contract expires, when a new one is negotiated. Bargaining normally takes place on a firm-by-firm and union-by-union basis. For example, United Air Lines must bargain with a pilots union, a flight attendants union, a mechanics union, and so on, one at a time. Further, each of these unions negotiates individually with each airline whose employees it represents.

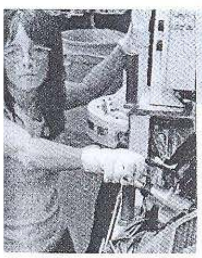
In many other countries the government is much more active in collective bargaining. In some European countries collective bargaining is undertaken by representatives of several firms and unions, along with government officials. The outcome is an umbrella agreement that applies to entire industries and collections of related labor unions. In Japan collective bargaining also usually involves government officials but is done on a firm-by-firm basis. A government official serves more as an observer, recording what transpires and answering any questions that arise during the negotiation.

Union Influence and Codetermination

Union influence can be manifested in various ways, including membership, strikes, and public relations. In Europe much of the influence of labor unions arises from the premise of industrial democracy—the belief that workers should have a voice in how businesses are run. In some countries, most notably Germany, union influence extends far beyond traditional boundaries of labor-management relations. The approach taken in Germany is called codetermination and provides for cooperation between management and labor in running the business.

Codetermination is the result of a 1947 German law that required firms in the coal and steel industries to allow unions to have input into how the firms were run. The law has been amended several times, and today it applies to all German firms with 2,000 or more employees. The law requires all covered firms to establish a supervisory board. Half the seats on this board are elected by the firm's owners (much like the board of directors of a U.S. corporation); the other half are appointed or elected by labor. Of the labor seats one-third are union officials and two-thirds are elected by the workforce. One seat elected by labor must be occupied by a managerial employee, so management essentially controls a potential tie-breaking vote. The supervisory board oversees another board called the board of managers. This board, composed of the firm's top managers, actually runs the business on a day-to-day basis.

The German model represents the most extreme level of industrial democracy. However, other countries, including Sweden, the Netherlands, Norway, Luxembourg, Denmark, and Austria, take similar approaches in requiring some form of labor representation in running businesses. In contrast, Italy, Ireland, the United Kingdom, and Latvia have little or no mandated labor participation. However, the EU has been attempting to standardize labor practices, employment regulations, and benefits packages throughout its member states. The ongoing implementation of its **social charter** (sometimes called the *social policy*) focuses on such concerns as maternity leave, job training, and superannuation (pension) benefits. One motivation for the social charter is to reduce the potential loss of jobs from richer countries, such as Germany or Belgium, to countries with lower wages and poorer benefit programs, such as Portugal, Greece, and Spain. Worker participation reform also is spreading into Pacific Asia. For example, workers in Singapore have been given a considerably stronger voice in how businesses are operated. Even though Japanese workers do not have a particularly strong voice in the management of their firms, they traditionally have enjoyed an abundance of personal power and control over how they perform their own jobs.



Chapter Review

Summary

Human resource management is the set of activities directed at attracting, developing, and maintaining the effective workforce necessary to achieve a firm's objectives. Because the HR function is central to a firm's success, top managers should adopt a strategic perspective on it.

International human resource needs are partially dictated by a firm's degree of internationalization. The relative degree of centralization versus decentralization of control also plays an important role. A basic staffing philosophy should be developed and followed.

Recruitment and selection are important elements of international HRM. Some firms choose to recruit experienced managers for foreign assignments, whereas others hire younger, and more likely inexperienced, managers. Various avenues may be used for either approach to recruiting. The selection of managers for foreign assignments usually involves consideration of both business and international skills. Managers and firms must address a variety of expatriation and repatriation issues.

Training and development also are important aspects of international HRM. The two principal components of this activity are the assessment of training needs and the selection of basic training methods and procedures.

A firm also must assess the performance of its international managers and determine their compensation. Compensation for expatriate managers usually includes a cost-of-living adjustment as well as special benefits.

Given the high cost of training and development of expatriates, firms need to focus special attention on managing retention and turnover. Each part of international HRM also must be addressed for the firm's nonmanagerial employees.

Labor relations pose an especially complex task for HR managers and often are handled by a special department. One key aspect of labor relations is collective bargaining, or negotiating agreements with unions.

Review Questions

1. Along what dimensions does domestic HRM differ from international HRM?
2. How does the degree of centralization or decentralization affect international staffing?
3. What are the basic issues involved in recruiting and selecting managers for foreign assignments?
4. What issues are at the core of expatriation and repatriation problems?
5. Why is performance appraisal important for international firms?
6. What special compensation and benefits issues arise in international HRM?
7. How does international HRM for nonmanagerial employees differ from that for managerial employees?

Questions for Discussion

1. How does HRM relate to other functional areas such as marketing, finance, and operations management?
2. Why and how does the scope of a firm's internationalization affect its HRM practices?
3. How are the different approaches to recruiting and selecting managers for foreign assignments similar and dissimilar?
4. Which are easier to assess, business skills or international skills? Why?
5. If you were being assigned to a foreign position, what specific training requests would you make of your employer?
6. Do you agree or disagree with the idea that some international assignments require special compensation?
7. How easy or difficult do you think it is to handle the equity issue in international compensation?
8. What does the high cost of replacing an international manager suggest regarding staffing philosophy?
9. Which do you think is easier, HRM for managerial employees or HRM for nonmanagerial employees? Why?

Building Global Skills

Assume you are the top HR manager for a large international firm. The head of your company's operation in Japan has just resigned unexpectedly to take a job with another firm. You must decide on a replacement as quickly as possible. You have developed the following list of potential candidates for the job:

- Jack Henderson: Henderson is a senior vice president based in your Chicago headquarters. Jack has a long and distinguished career with your firm, is well regarded by everyone, and plans to retire in three years. He has never worked outside the United States but is strongly and visibly lobbying for the job in Japan. Because you and your spouse socialize with Jack and his wife outside of work, you know she does not want to move from Chicago.
- Takeo Takahashi: Takahashi is the number two manager in your Japanese operation, although he has served in that role for only three months. He was born and raised in Japan. After attending college in the United States, he returned to Japan and went to work for your firm. Takeo is considered an emerging star in the company but is also relatively young and inexperienced. Your CEO prefers to appoint someone for the Japanese job with at least 15 years of company experience, and Takeo has only eight years of experience. He was being groomed to eventually take over the operation, but the just-departed top executive had been expected to serve until he reached retirement age in another seven years.
- Jane Yamaguchi: Yamaguchi is a Hawaiian-born manager currently heading up a major division for your company in the United States. She was a dual economics and Asian studies major at the University of Hawaii. For the last several years she has been studying the Japanese market and has become a true expert on that country. She enjoys traveling and spends as much time in Asia as possible. You know she would be very interested in this job if it were offered, although you are concerned that her husband and two high-school-age children may not share her enthusiasm about living in Japan. In addition, you worry that if she is not offered a new challenge soon, she might start looking for another position.
- Jacques Moine: Moine is your most experienced international manager. Originally from France, Jacques has held senior management positions in your firm's operations in Germany, Spain, Canada, Argentina, and Mexico. Moine appears to be quite satisfied with his current posting in Mexico. Because that operation is both stable and very efficient, it likely could be run by someone with less experience.

Working alone, carefully consider the strengths and weaknesses of each of the four leading candidates for the job. Select the individual you think is the best candidate.

Then form small groups of four or five students. Share with each other your individual choices for the job in Japan, along with the reasons for making those choices.

Closing Case

"You Americans Work Too Hard"

Andreas Drauschke and Angie Clark work comparable jobs for comparable pay at department stores in Berlin and suburban Washington, D.C. But there is no comparison when it comes to the hours they put in.

Mr. Drauschke's job calls for a 37-hour week with six weeks' annual leave. His store closes for the weekend at 2 P.M. on Saturday afternoon and stays open one evening each week—a new service in Germany that Mr. Drauschke detests. "I can't understand that people go shopping at night in America," says the 29-year-old, who supervises the auto, motorcycle, and bicycle division at Karstadt, Germany's largest department store chain. "Logically speaking, why should someone need to buy a bicycle at 8:30 P.M.?"

Mrs. Clark works at least 44 hours a week, including evening shifts and frequent Saturdays and Sundays. She often brings paperwork home with her, spends her days off scouting the competition, and never takes more than a week off at a time. "If I took any more, I'd feel like I was losing control," says the senior merchandising manager at J.C. Penney in Springfield, Virginia.

The 50-year-old Mrs. Clark was born in Germany but feels like an alien when she visits her native land. "Germans put leisure first and work second," she says. "In America it's the other way around."

While Americans often marvel at German industriousness, a comparison of actual workloads explodes such national stereotypes. In manufacturing, for instance, the weekly U.S. average is 37.7 hours and rising; in Germany it is 30 hours and has fallen steadily over recent decades. All German workers are guaranteed by law a minimum of five weeks' annual holiday.

A day spent at a German and an American department store also shows a wide gulf in the two countries' work ethic, at least as measured by attitudes toward time. The Germans fiercely resist any incursions on their leisure hours, while many J.C. Penney employees work second jobs and rack up 60 hours a week.

But long and irregular hours come at a price. Staff turnover at the German store is negligible; at J.C. Penney it is 40 percent a year. Germans serve apprenticeships of two to three years and know their wares inside out. Workers at J.C. Penney receive training of two to three days. And it is economic necessity, more than any devotion to work for its own sake, that appears to motivate most of the American employees.

"First it's need and then it's greed," says Sylvia Johnson, who sells full time at J.C. Penney and works another 15 to 20 hours a week doing data entry at a computer firm. The two jobs helped her put one child through medical school and another through college. Now 51, Mrs. Johnson says she doesn't need to work so hard—but still does.

"My husband and I have a comfortable home and three cars," she says. "But I guess you always feel like you want something more as a reward for all the hard work you've done."

Mr. Drauschke, the German supervisor, has a much different view: Work hard when you're on the job and get out as fast as you can. A passionate gardener with a wife and young child, he comes in 20 minutes earlier than the rest of his staff but otherwise has no interest in working beyond the 37 hours his contract mandates, even if it means more money. "Free time can't be paid for," he says.

The desire to keep hours short is an obsession in Germany—and a constant mission of its powerful unions. When Germany introduced Thursday-night shopping in 1989, retail workers went on strike. And Mr. Drauschke finds it hard to staff the extra two hours on Thursday evening, even though the late shift is rewarded with an hour less overall on the job. "My wife is opposed to my coming home late," one worker tells him when asked if he will work until 8:30 on a coming Thursday.

Mr. Drauschke, like other Germans, also finds the American habit of taking a second job inconceivable. "I already get home at 7. When should I work?" he asks. As for vacations, it is illegal—yes, illegal—for Germans to work at other jobs during holidays, a time that "is strictly for recovering," Mr. Drauschke explains. He adds, "If we had conditions like in America, you would have to think hard if you wanted to go on in this line of work."

At J.C. Penney, the workday of the merchandising manager Mrs. Clark begins at 8 A.M. when she rides a service elevator to her windowless office off a stock room. Though the store doesn't open until 10 A.M., she feels she needs the extra time to check floor displays and schedules. Most of the sales staff clock in at about 9 A.M. to set up registers and restock shelves—a sharp contrast to Karstadt, where salespeople come in just moments before the shop opens.

Case Questions

1. How does HRM in the United States differ from HRM in Germany?
2. What do you see as the basic advantages and disadvantages of each system?
3. If you were the top HRM executive for an international department store chain with stores in both Germany and the United States, what basic issues would you need to address regarding corporate HR policies?
4. Are the issues more or less acute in the retailing industry versus other industries?
5. Under which system would you prefer to work?

Source: Daniel Benjamin and Tony Horwitz, "German View: 'You Americans Work Too Hard—and for What?' " *Wall Street Journal*, July 14, 1994, pp. B5–B6.

Part 4 Closing Cases

Carvel Ice Cream—Developing the Beijing Market

Thomas Carvel founded Carvel Corporation (Carvel) in 1934 in Hartsdale, New York, after he converted his mobile ice cream truck into a permanent roadside location. By the mid-1990s Carvel owned and operated over 300 retail stores and had granted franchise rights to over 600 others. It had also established over 4,500 "wholesale" accounts throughout the United States.

In 1994 Carvel established Carvel Asia Limited to act as holding company for the ice cream maker's operational investments in Asia, starting in Beijing. To this end Carvel Asia Limited teamed up with China's Ministry of Agriculture to create Beijing Carvel Food Company Limited (Beijing Carvel), a joint venture equally owned by both parties. The company had experienced losses every year since its inception; however, its financial performance had steadily improved.

The Beijing Market

Steven Wang, a fluently bilingual American-born Chinese, joined Carvel Asia Limited in September 1997 with a mandate to increase Beijing Carvel's sales, particularly in the ice cream cakes category. In summarizing the task before him, Wang stated:

> The challenge is to develop a complete marketing program for a product that is relatively new to most Chinese. Therefore, much of what we need to do involves basic education—we need to ensure that our customers and distribution partners understand who we are, what we are about, and what benefits our products provide. At the same time, we have been given a very limited advertising and promotion budget, so whatever actions we take must be cost-effective. Once we put a proven program together in Beijing, we will transfer out learning to other parts of the country.

Wang identified several attributes that needed to be factored into the development of his marketing program. One factor was that China's consumption of dairy products was among the lowest in the world. Wang attributed this to China's poor infrastructure, which prevented sanitary and cost-effective distribution, and a high incidence of lactose intolerance among Chinese. There were encouraging signs, however, that dairy products were becoming much more commonplace in China. Wang had learned that, over the previous decade, overall dairy product consumption had tripled in China and that ice cream was the most popular dairy product consumed. In addition, Chinese health-care professionals had become more vocal in advocating much greater consumption of dairy products in order to achieve improved health.

Wang concluded that there were three customer segments that held the greatest promise for increased sales, namely, middle and upper class Chinese professionals, an emerging generation of so-called "little emperors," and expatriate residents. Wang noted:

> In Beijing our most important customer segment so far has been middle and upper income working professionals who provide us with about 70 percent of our cake sales. But there is still some conservatism within this segment which prevents them from making purchases that are viewed as risky. I think that is one of the reasons why our 8-inch Classic cake is our best seller. Another reason is that the Classic cakes allow our customers to customize their messages on top of the cake—this is something that is very culture driven in China.

Wang believed another lucrative segment was children and young teenagers. He reasoned:

> Back in 1980 the government imposed the "one-child policy" as a means of curtailing the country's exploding population. As a consequence, an entire generation of so-called Little Emperors emerged. Since most of these children have no brothers or sisters, they are continuously spoiled by their parents and two sets of grandparents. These Little Emperors are used to getting almost anything they want. Beijing alone has 1.5 million children between the ages of five and 12.

Wang's task was to get them and their parents more interested in Carvel ice cream cakes.

To date about 10 percent of Beijing Carvel's annual sales came from Beijing's 100,000-strong expatriate community. These were mainly foreign business and embassy employees (and their families) who were living and working in Beijing. In targeting this segment, Wang had mixed feelings. Virtually all North Americans and most Europeans living in Beijing had an excellent command of English, which meant that Beijing Carvel could avoid the cost and effort of translating a total marketing program into Chinese. Moreover, this same group was familiar with ice cream products in general and ice cream cakes in particular. Therefore, comparatively little effort needed to be done to adapt a Western-style marketing program to Beijing because many expatriates understood Beijing Carvel's products and their benefits, and Carvel largely understood the purchasing habits and criteria of these consumers. However, Wang was concerned that too much effort dedicated to attracting expatriate customers would detract from Beijing Carvel's ability to reach a much wider audience.

Improving Beijing Carvel's Performance

As Wang began to develop a marketing program for Beijing Carvel's ice cream cakes, he realized he had several options to analyze before making his final decisions.

Products and Prices

Several decisions had to be made concerning the types of products to focus on selling and their corresponding prices. One option was to expand the number of products offered. Wang believed two products Carvel had marketed in the United

States might also suit the Beijing market. The first was the "Little Love," a smaller (6-inch round, 600-gram) Classic cake which retailed in the United States for $7.99. Wang believed the Little Loves had a potentially wide appeal because their lower price would reduce the "purchase risk" felt by hesitant customers. The nature of the product might also appeal to mothers who were interested in satisfying the wishes of their Little Emperors.

The other product Wang believed had potential in the Beijing market was the small, single-slice "Piece of Cake." The rationale underlying their sale was to reduce "purchase risk." Given the smaller incomes in China, Wang believed a "Piece of Cake" might appeal to Beijingers who were still unfamiliar with the ice cream cake concept. Such a product offering would also distinguish Beijing Carvel from its main competitors because they offered no similar product—one that could be easily consumed in the store. Also, by providing consumers with what it called a "saleable sample," the company hoped to induce more purchases of its larger cakes.

In terms of current menu items Wang was unsure whether or not he should adjust Beijing Carvel's cake prices because of the effect it might have on Carvel's image relative to its competitors. This was an especially important consideration given that the company's cake prices were already lower than both Baskin-Robbins and Haagen-Dazs.

One possible pricing option was to extract greater cost reductions from the manufacturing process and pass these savings on to the consumer. This could be done by reducing the quality of the ice cream by whipping more air into it during production. Wang estimated he could lower his variable costs by 5 percent by doing so. He also recognized the possibility that this could compromise Carvel's image for quality in the market. Therefore, he knew he would require head office approval before proceeding.

Distribution

In exploring his distribution options, Wang needed to determine, first, how he could improve sales in Beijing Carvel's existing retail and wholesale locations; second, whether or not he should target the growth of specific channels more than others; and third, whether or not he should exit certain locations. The difficulty he faced in making these decisions stemmed from the wide variability in performance among all distribution channel types, wherein no clear pattern of success had yet been established.

In terms of Beijing Carvel's retail stores only four were viewed as "full service" because they alone offered all Carvel product lines and each could accommodate 15 to 20 customers. The remaining six stores were scaled-down outlets that served only hard ice cream and cakes and had little or no available seating. Their average monthly sales ranged from about $2,000 to $15,000. In terms of investment the stores' return on investment ranged from –25 to 60 percent.

In terms of wholesale outlets Beijing Carvel had established sales accounts with various food merchants, which were categorized as follows: 25 in high-end supermarkets, 25 in local supermarkets, 40 in bakeries, and 60 in restaurants and bars. In developing these accounts, Beijing Carvel focused mainly on growing its ice cream cake business, although a limited selection of hard ice cream and novelties was available at certain locations. Eight sales account representatives were responsible for prospecting new accounts and servicing existing accounts. Their duties included educating vendors about the products, as well as demonstrating appropriate placement and presentation. All cakes sold to the wholesalers were priced at a 30 percent discount off Beijing Carvel's retail prices and were displayed in self-contained freezers leased from Beijing Carvel.

The high-end supermarkets serviced by Beijing Carvel were all joint venture companies involving well-known foreign retailers such as Carrefour (from France), Makro (from Holland), and Park 'n' Shop (from Hong Kong). These stores offered the widest range of food and specialty cooking items in Beijing and catered mainly to the expatriate community and the growing number of upper-income Chinese. Despite their strong association with discounting in the West, the cost of many imported food items offered at these stores was out of reach for most Chinese. However, several locally owned supermarket chains had emerged in recent years that catered to the larger (and rapidly growing) middle class in Beijing. Unlike the high-end supermarkets, items in these stores catered to local tastes and were offered at more moderate prices.

Beijing Carvel believed bakeries were a natural point of distribution for ice cream cakes because many consumers frequented these stores for flour-based cakes and other items. One concern that Wang had about developing bakery accounts was related to the average prices for flour-based cakes, which were often 15 to 30 percent less than Beijing Carvel's cakes.

Beijing Carvel's rationale for developing wholesale accounts in bars and restaurants was related to the emergence of Beijing's middle and upper classes and the corresponding explosion in the number of new eating and drinking establishments throughout the city in recent years. The Chinese tradition of conducting business in a social atmosphere also meant that many of Beijing's high-income individuals spent a great deal of time entertaining existing and potential business partners.

Wang was not pleased with the "quality" of many of the wholesale accounts that had been recruited prior to his arrival. Wang suggested:

> Much of the problem is related to the fact that the eight sales reps are compensated by the number of accounts they develop, not the quality of accounts developed. What we need now is radical surgery to ensure that the accounts we have are worth the time and effort required to supervise them. This may mean slashing our nonperforming accounts and reassigning our freezers to other locations.

Advertising

Wang knew that his advertising budget was only $20,000 for the upcoming year. This meant that media such as television and radio were not tenable options. Therefore, Wang needed to rely on various print media to convey what he believed was the most important message he wanted to deliver, specifically "Who we are, what we are about, and the benefits of our products." Wang identified three feasible print media: a newspaper ad, a flyer, and a coupon book.

Beijing Shoppers Guide was a twice-weekly consumer newspaper that targeted the city's emerging upper-middle and upper classes. Each edition had a circulation of 250,000 and cost readers 12¢. Advertising costs were $1,250 per edition for a 4-square-inch placement. Many companies used this space to introduce and describe their products, as well as offer a cut-out, returnable coupon. These coupons typically offered a 12 percent discount off the retail price because the number eight was considered lucky in China, and therefore 88 was seen as doubly lucky. Wang believed that if he were to use this print medium, he would need to offer more than the standard 12 percent discount in order to induce purchase.

The advertising leaflet Wang envisioned would be a dual-language, full-size (about 8.5 inches x 11 inches), double-sided glossy leaflet, which could fold into thirds. One side would present pictures and prices of Beijing Carvel's main menu items, with an emphasis on cakes. The other side would display a miniature map of Beijing indicating the address and phone numbers of the company's retail locations, as well as a discount coupon. Initial costs were estimated to be 5¢ per sheet for a minimum of 2,000 prints. If 5,000 or more copies were ordered, the cost would be reduced to 3¢ per sheet. Wang believed the most effective points of distribution would be outside several new shopping centers, which were key destinations for Beijing's emerging consumer classes. He felt the most appropriate people to distribute the leaflets would be company employees, dressed in full Carvel uniform.

The Beijing chapter of the Asian Hospitality Association (AHA) offered an entertainment coupon book which profiled about 175 mid- to upscale restaurants, eateries, bars, and recreation establishments. The book was revised annually and sold to about 10,000 local "members," virtually all of whom were in the upper-income segment, for $16 per copy at the start of each year. Members received an AHA membership card, which they could then use as many times as they wished throughout the year at any of the participating advertisers' establishments. The discount Wang had in mind was to offer AHA members a 12 percent discount off all cake sales. The cost for participating advertisers was $500 for a half-page placement (3 inches high x 4 inches wide). Wang was confident that, because he knew the publication's manager, he could purchase a standard placement in exchange for $300 worth of Beijing Carvel coupons.

The Days Ahead

In looking at the task before him, Steven Wang realized he needed to make a series of sound decisions before his ice cream cake marketing program was complete. This included resolving questions about whom to target, what products to focus on, and what prices to charge for those products. He also needed to resolve what points of distribution would best increase Beijing Carvel's cake sales and how to support these sales through various print media options. The difficulty of these decisions was compounded by the fact that ice cream cakes were new to most Chinese and were derived from a relatively unpopular food group. Furthermore, the information he had at his disposal to help him make his decisions was, at times, unreliable. "But," as Wang determined, "this is not an excuse to avoid making these decisions."

Questions

1. Carvel's new Beijing manager, Steven Wang, has not yet formulated his pricing and product policies. What advice would you give him? Should Wang reduce Carvel's prices, perhaps by reducing product quality?
2. Do you agree with Wang's deemphasizing sales to Beijing's expatriate community?
3. What changes would you make as to how Carvel distributes its products in Beijing? Should it emphasize sales through Carvel retail outlets? Should it shift to bakeries or wholesalers? Defend your answer.
4. Carvel's advertising budget is extremely limited. Where should Carvel advertise?

Source: Adapted from "Carvel Ice Cream—Developing the Beijing Market" (case 1999-07-17) with permission from the Richard Ivey School of Business, the University of Western Ontario.

Target Micronics in China: Disarray in Finance

In March 1994 Kim Knight, Target Micronics China's director of finance, received the results of the company's internal audit for the Greater China Region. Much to her dismay, finance had been rated "unsatisfactory." This was but one more piece of bad news for the Hong Kong–based headquarters of Target Micronics' China operations. The office was chronically understaffed, turnover rates were in double digits each month, and morale was dismal. On top of it all, the office was also trying to accommodate the rapid growth and growing complexity of operations in the Greater China Region. Knight now had to begin to formulate a plan for correcting the problems that underlay the "unsatisfactory" rating before the external auditors visited in December. She wondered what she would do.

Target Micronics and China

Target Micronics is a significant player in the Canadian microelectronics industry and one of the leading providers of integrated circuits in the world. Incorporated in 1968, the company pioneered the use of microelectronic circuits for use in the automotive industry. Target Micronics' success had long been due to an aggressive but focused global strategy. The company's 1994 sales topped $2.8 billion, and 32 percent of revenues were generated outside North America from operations in more than 40 countries worldwide.

Target Micronics first entered the Greater China Region—composed of China, Hong Kong, Taiwan, and Korea—in 1978, primarily to promote the sale of its product in this region. The region's headquarters, located in Hong Kong, housed the sales, marketing, finance, and operations functions.

Target Micronics enjoyed its first success in China in 1983 when a government-operated appliance manufacturer began to use Target Micronics' microelectronic components. In 1988 a joint venture, Zhejiang-Micronics, was established to manufacture integrated circuits in China. By 1991 the joint venture fabrication facility was producing 20,000 units per month, providing chips for a wide range of uses throughout the country.

In 1993 Target Micronics became one of five international microelectronic companies chosen by the Chinese State Planning Commission to supply integrated circuits to China. As part of the deal, Target Micronics committed $20 million in investment over the next five years to work on several joint technology initiatives. Target Micronics expanded its presence in the area with the opening of a Beijing office. Between 1992 and 1994 Target Micronics's business in the region grew nearly 300 percent. Not only did sales explode during this period, but the product range involved also expanded significantly. Further, Target Micronics began to enter into an increasing number of joint ventures with private-sector customers in the region. All these factors created pressure for the finance group in the Greater China Region.

Stresses on the Finance Function

As the head of finance in the Greater China Region, Kim Knight reported to the regional chairman with "dotted line" accountability to the vice president of finance, global business, in the United States, who in turn reported to Target Micronics' chief financial officer. Knight's finance group had responsibility for the basic accounting that accompanied Target Micronics' sales in the region—keeping track of accounts payable and receivable as well as managing cash flow. It also managed the financing of sales to the region. Initially, most Chinese purchases were financed through loans granted by the Economic Development Corporation of Canada. The resulting transactions were relatively simple to process. However, by 1993 the Chinese ministries with which Target Micronics dealt began to demand lower interest rates and to negotiate buybacks of their higher-interest debt. This made transactions much more complicated.

In 1993 Knight's finance office took over responsibility for the financial accounting function for both Taiwanese and Korean operations. As well, the office supported the relocation of Target Micronics' regional business staff from Tokyo to Hong Kong. Further, Target Micronics began to enter into a number of joint ventures with private-sector Chinese customers. In each instance the finance department would have to design the financing package and determine under what conditions the deal could earn money. Exacerbating the increasingly complex workload the finance department faced was the inflow of expatriate managers to the region (both to Hong Kong and to Beijing), each of whom required the attention of the department for details such as cash advances, the payment of expenses, and the setting up of payroll.

By early 1994 the system, which had been designed to handle $10 million in business, was stretched to the extreme, handling in excess of $80 million in business in addition to the myriad other accounting and payroll duties now assigned to it. In the last year alone revenues had more than doubled, from $41 million to $84 million. Moreover, the relatively simple transactions of the past had been replaced by much more complicated dealings. The current staff were simply not equipped to cope. Not only were there not enough of them, but most employees did not have the requisite level of skill to deal with the more complex transactions now confronting the finance group.

Symptoms of the Problem

Perhaps the most severe problem Knight faced after the skills shortage was the rampant turnover of her staff. In 1993 the annual turnover rate was nearly 30 percent, and 1994 looked as if the rate would surpass 40 percent. Knight found it increasingly difficult to hire replacements. The Hong Kong job market was incredibly dynamic and attractive to job seekers. Much to Knight's chagrin, the April 30, 1994, *South China Morning Post* contained 55 pages of employment advertisements with no fewer than 189 positions of interest to her people. As a result, through much of 1994, Target Micronics' Greater China Region finance function was operating with seven of 21 staff positions unfilled.

Several things contributed to the sky-high levels of turnover. Normal hours worked by people in the finance group were 8:30 A.M. until 9:00 or 10:00 P.M., with five-hour days on Saturdays and Sundays. The Hong Kong norm, in contrast, was around 40 hours per week with no weekend work. Working around the clock was not uncommon during month-end closing deadlines. The 1993 year-end was especially bad, as staff worked through the Christmas to New Year's period without a break, often putting in 16-hour days. One staff member did not even go home for three days because the one-hour commute she faced was too long. Instead, she stayed nearby at a colleague's apartment, getting three or four hours' sleep before heading back to the office.

Pay was also a problem. As it was, Target Micronics paid salaries that were in the mid-market range for Hong Kong. When the significant amount of unpaid overtime was factored in, salaries became distinctly uncompetitive. The problem was exacerbated by Target Micronics' corporate policy of holding salary increases to no more than 10 percent for 1994. In Hong Kong, however, 10 percent was below inflation and below the average salary increase of 15 percent being paid by local companies. Pay was also individually oriented, despite the need for teamwork in much of the finance function.

Tied to the compensation problem was the issue of titling at Target Micronics. Titles within the company were based on the North American system. In Hong Kong, and Asia more generally, however, titles were very important to people and were used by many employers as an inexpensive perquisite. Thus employees within Target Micronics generally had less prestigious titles than did their peers in other companies. People left Target Micronics in some cases because they were the only one of their classmates not to have achieved a particular title level.

The titling issue was further linked to the issue of career progression within the company. Opportunities for career advancement were an important factor in retaining people. In Hong Kong people were very willing to actively manage their own careers. Hong Kong employees would ask directly about their career opportunities, and if not satisfied that these opportunities were adequate, would move on to where they perceived them to be better. Target Micronics was perceived by many employees in the finance area to be making no investment in training and development for its promising employees.

The bottom line of all these issues was that turnover was unacceptably high. People left Target Micronics' Hong Kong finance operation citing poor pay, the need to follow a spouse, the desire for a more prestigious job title, and the desire for more career opportunities. When people left, they were often replaced by temporary employees, who in turn would leave in rapid succession. Systems fell into disuse, mistakes were rampant, and processes degenerated.

Moreover, because of this chronic understaffing, managers found themselves having to abdicate their managerial responsibilities to help out in the trenches, processing daily transactions. Knight's predecessor was unable to help, because he was occupied full time as a key member of the team negotiating a new fabrication joint venture. As a result of this lack of leadership, staff training was put on hold, planning ceased, and no strategic overhaul of the system could be done. Managers could not be counted on to resolve staff problems. Consequently, the level of frustration and subsequent turnover among the finance staff grew, because they foresaw no improvement in the near future and found the status quo unbearable.

By early 1994 the finance function was in disarray. The internal audit stated that

> changes to business processes and basic financial support systems could not adequately keep pace with the rapidly increasing change and complexity in the business environment. Another contributing factor is the high staff turnover at both professional and clerical levels due to a highly competitive labor market.

Two major areas were highlighted as requiring immediate attention. First, account reconciliation and analysis were found wanting. Numerous balance sheet accounts had not been reconciled or adjusted recently and supporting documentation was not found to tie into the amounts reflected on the balance sheet. Second, many processes required significant reengineering and streamlining to be effective in the new environment. Most financial processes were designed for a much smaller volume of much simpler transactions and were no longer adequate for current needs. Several processes were highlighted as needing streamlining. Among them were accounting for cash in transit and employee expense vouchers; payment processes for supplier invoices; and a process to strengthen the collection of accounts receivable. Receivables collection was especially problematic; collection times often stretched twice past their due dates. It was predicted that cutting collection times in half would generate $750,000 in additional cash flow. Finally, the report also highlighted a potential security breach in that only one clerk prepared checks, did the banking, reconciled the bank statements, and created the journal entries, thus weakening internal controls and exposing the company and the clerk to charges of misappropriation.

These major problems were accompanied by a host of other minor incidents. The contract ledger (a subledger) could not be reconciled with the general ledger. Linkages among various systems were nonexistent, so that data across systems could not be reconciled. This created a huge opportunity for human error in the management of each system. In addition, far too many checks were being done manually. Overdrafts on Target Micronics' accounts became commonplace. Employees had to wait months for expense reimbursements. Incoming checks were often just shoved into a drawer and not deposited in the bank. Vendors were becoming increasingly frustrated with late or nonpayment of invoices. The overall result was a significant deterioration in customer and supplier relationships.

Knight's Dilemma

In the wake of the unsatisfactory internal audit, noting the finance department's major weaknesses in finance process and systems, Knight found herself caught between a rock and a hard place. On the one hand, she obviously needed to create and implement a new system. To do so required people with the right skills and experience to design, implement, and operate it. But until such a system was in place, to create order out of the chaos that currently existed, Knight had no hope of recruiting or retaining people who had those necessary skills or experience. She needed to think long and hard about how she was going to do this. Yet she didn't have much time. The external audit was scheduled for December—only nine months away.

Questions

1. Diagnose the problems facing Target Micronics' Greater China finance office. Why did these problems arise?
2. Put yourself in the shoes of Kim Knight, the manager of this office. What could she have done differently? What would you recommend she do prior to the arrival of the external auditors in nine months?
3. Put yourself in the shoes of her boss, the regional chairman for Target Micronics' Greater China operations. What should the regional chairman do?
4. Put yourself in the shoes of the chief financial officer of the parent company. What should the CFO do?

Source: Adapted from "Target Micronics in China: Disarray in Finance" (case 2000-07-27) with permission of the Richard Ivey School of Business, the University of Western Ontario.

The Aramco Advantage

Between the years 1979 and 1981 Saudi Arabia had a major disagreement with the other members of the Organization of Petroleum Exporting Countries (OPEC) about the appropriate price to charge for a barrel of crude oil. So-called OPEC hawks wanted to keep the price of oil high. Saudi Arabia, fearful that high prices would encourage other countries to explore for new, low-cost oil fields and stimulate consumers to conserve on energy usage, believed the most profitable long-run strategy was to keep prices low. The Saudis' actions resulted in the creation of the "Aramco advantage" and the world's largest tax refund involving transfer pricing.

Aramco was a consortium of four U.S. oil companies—Chevron, Exxon, Mobil, and Texaco—that originally controlled the Saudi oil fields. (Exxon and Mobil have subsequently merged, as have Chevron and Texaco.) After its oil reserves were expropriated by the Saudi government in the 1970s, Aramco continued to play a major role in marketing Saudi oil. The Aramco advantage began in January 1979 when Ahmed Zaki Yamani, the Saudi oil minister, wrote a letter to Aramco forbidding it to sell Saudi oil for more than the price set by Yamani's ministry. This price was well below the world market price for crude oil. The Aramco partners, not wishing to displease the Saudi government, dutifully complied with Yamani's request. They sold the crude oil to their foreign refineries at Yamani's price and then refined the oil into gasoline, diesel fuel, and other petroleum products. Yamani's directive, however, covered only the price of crude oil. Each company was free to sell the refined products at their market prices, which the four companies did. Because they were buying the crude oil at less than the market price, the refining operations of the Aramco partners were soon making money hand over fist. (In case you are wondering, Yamani was not ignorant of the impact of his letter. He had numerous political reasons for his actions.)

The impact of the Aramco advantage was enormous. Exxon's refineries earned an additional $4.5 billion from 1979 to 1981, and Texaco's refineries netted an estimated $1.8 billion. Because these profits were earned by the companies' foreign refinery subsidiaries, the profits could be sheltered from U.S. taxation thanks to the deferral rule—or so the companies thought. The U.S. Internal Revenue Service (IRS) had a different view, arguing that it was the marketing activities of the two companies that were responsible for the profits, not the refining operations. Accordingly, the IRS claimed that $4.5 billion in income should be transferred to Exxon (the parent corporation) from its foreign refineries and that Texaco should make a similar shift of $1.8 billion. Having done so, the companies then should be required to pay U.S. corporate income taxes on these earnings.

Not surprisingly, the companies resisted the IRS's interpretation. They said they were following the explicit instructions of the minister of a sovereign, friendly nation. Because of Yamani's directive, Texaco and Exxon asserted that the parent companies were unable to directly benefit from lower crude oil prices because the companies were forbidden to resell the oil at the market price. Rather, they noted that the Aramco advantage could be captured only by someone operating further down in the production-distribution chain. As things turned out, it was the next link in the chain—the foreign refineries owned by the individual Aramco partners—that garnered the Aramco advantage. Exxon and Texaco also pointed out that the United States had been putting great diplomatic pressure on the Saudis to lower the price of crude oil and that U.S. officials were well aware that the result of this policy would be increased refining profits.

Texaco's case was the first to complete its long journey through the U.S. judicial system. The U.S. Tax Court agreed with Texaco's interpretation. The court found that the $1.8 billion in additional profits generated by the Aramco advantage were earned by Texaco's foreign refining subsidiaries and not subject to U.S. corporate income taxes unless and until the profits were repatriated back to the parent corporation in the form of dividends. A federal appeals court upheld the verdict of the Tax Court, and in April 1997 the U.S. Supreme Court refused to hear the IRS's appeal of the appeals court decision. Texaco's tax refund was estimated to be $700 million.

Questions

1. Which unit of Texaco really "earned" the Aramco advantage? Aramco itself? Texaco's foreign refineries? Texaco's marketing operations? Or the parent corporation?
2. Had Aramco sold the crude oil to Texaco's U.S. refineries, would Texaco have been able to avoid U.S. taxation on the Aramco advantage?
3. Because Minister Yamani created the Aramco advantage partly in response to U.S. diplomatic pressure, should Exxon and Texaco have been required to sell their allotment of Saudi crude oil to their domestic refineries?
4. The IRS lawyers argued that the appeals court ruling amounted to a "blueprint for the evasion of U.S. taxes. [It] . . . creates substantial tax incentives for United States corporations to encourage or to endure the adoption of profitable foreign 'legal restrictions' that 'require' such corporations to avoid United States taxation." Do you agree with the IRS position? Or is it just being a crybaby because it lost?

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Market Entry Strategy Project

MESP Exercise for Part 4

This exercise is the fourth component of the Market Entry Strategy Project. Working with a group of your classmates, select two countries that interest you. One of these should be a relatively mature market, and the other should be an emerging market. Develop answers to each of the following questions and integrate them into your completed MESP report.

1. Discuss the similarities and differences in international marketing activities that are most likely to be observed between the mature and the emerging market.
2. Operations management activities will vary across countries for a variety of reasons. Describe the basic ways that operations management activities are likely to vary between the mature and the emerging market.
3. International finance is a complex area for managers to monitor. Discuss the basic issues and summarize the similarities and differences in international financial management between the mature and the emerging market. Make specific note of the levels of financial risk likely to exist in each market.
4. International accounting and taxation are governed from three perspectives: a firm's domestic laws and regulations, its foreign market laws and regulations, and international laws and regulations. Compare and contrast how these perspectives are likely to impact the mature and the emerging market.
5. Describe the basic issues and summarize the similarities and differences in international human resource management between the mature and the emerging market.

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