Course Learning Outcomes for Unit VIII

Upon completion of this unit, students should be able to:

10. Explore international human resource management and staffing approaches associated with multinational enterprises (MNEs).

Reading Assignment

In order to access the following resource(s), click the link(s) below:

Khatri, N. (2000). Managing human resource for competitive advantage: A study of companies in Singapore. *International Journal of Human Resource Management*, *11*(2), 336–365. Retrieved from https://libraryresources.columbiasouthern.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=4219940&site=ehost-live&scope=site

Overman, S. (2016). Tapping talent around the globe. *HR Magazine*, *61*(1), 46–51. Retrieved from https://libraryresources.columbiasouthern.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=112810959&site=ehost-live&scope=site

Story, J., Barbuto Jr., J., Luthans, F., & Boviard, J. (2014). Meeting the challenges of effective international HRM: Analysis of the antecedents of global mindset. *Human Resource Management*, *53*(1), 131–155. Retrieved from https://libraryresources.columbiasouthern.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=94063588&site=ehost-live&scope=site

Taylor, S., Beechler, S., & Napier, N. (1996). Toward an integrative model of strategic international human resource management. *The Academy of Management Review*, *21*(4), 959–985. Retrieved from https://libraryresources.columbiasouthern.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=9704071860&site=ehost-live&scope=site

Unit Lesson

Value-Chain Management

The purpose of any business organization is to create value that people want. There are numerous ways to do that, but two ways seem to dominate business strategy.

Cost leadership: A business tries to build a product for less cost than a competitor can do it. This works well if the product is a commodity or manufactured with a set pattern or process than can be mass-produced.

Differentiation: In this scenario, a business tries to build a product that is different or unique and that fills a need. This type of value creation leans towards customizing a product or developing a new and different product.

Whichever strategy businesses follow they outperform their competition by offering more value relative to the price they charge. In their search to create more value, companies search into each business function to find ways to improve efficiency and production. That is where the value chain comes into play.

The value chain is a list of the primary activities that a business conducts as it produces a product. It is a value chain because each step adds value to the product produced. The purpose for breaking it down into this format is to study each step and evaluate if the company needs it, if it can make it more productive, or if it can be outsourced. The value chain is composed of primary activities and support activities. Primary activities include:

- product design,
- operations,
- outbound logistics,
- marketing, and
- after-sales service.

If the firm has a competitive advantage—being it a special skill, capability, or technology—in any specific primary activity, that would make it a core competency. *Core competencies* are actions that add the most value to the product.

Support activities include the following:

- procurement and in-bound logistics;
- human resource management;
- information technology systems; and
- finance, accounting, and risk management.

In the Unit I lesson, access to more resources and more markets were reasons to establish international business operations. By dispersing value-chain activities around the world, each primary activity must be coordinated so that its value-creating output merges seamlessly with the others.

Human Resource Management (HRM)

Global HRM is the placement of people and the management of policies that add the most value to the company. Placing people is one part of the function, but managing policies that govern their placement, such as selection, hiring, compensation, training, promoting, and termination, make up human resources. Global HRM goes even further by taking into account sensitivity of cultural, political, and economic variables. Many countries restrict the use of workers from outside countries. For example, in Vietnam, foreign ownership is restricted to 49% of all companies with a few exceptions, and foreign managers have restrictions on how long they can work in the country (Vietnam, 2015).

There is statistical evidence that HRM adds value to the company. Human resource management drives company productivity and strategic performance (Taylor, Beechler, & Napier, 1996). There is also evidence that superior HRM practices add more value to companies than standard practices (Khatri, 2000). Both studies add strength to the argument that HRM is as important as other company functions such as manufacturing or marketing. Here we will examine two policies that global HRM must contend with that domestic companies do not: expatriates and staffing frameworks.

Facts about Expatriates

Expatriates are company executives sent to work in countries where they are not legal residents but where their firm has a plant, branch, or subsidiary. One type of expatriate is a home-country national where the expatriate is a legal resident of the country in which the parent company has its headquarters. Another type of expatriate is called a third-country national where the expatriate is neither a legal resident of the country where the parent company is headquartered nor a legal resident of the country in which the subsidiary is located.

The growth of globalism has strongly increased the demand for expatriates. 70% of the world's growth will come from emerging economies in the next decade (The world turned upside down, 2000). According to the United Nations Conference on Trade and Development, there are 82,053 parent corporations with 807,363 international subsidiaries around the world (Number of MNCs in the world, 2010).

The main reason people accept jobs as expatriates is to grow their skill set in diverse circumstances and learn decision-making in uncertain environments. Companies seek executives who can solve problems and create opportunities. Exposure to different situations allows executives to find different paths that allow them to grow and broaden their horizons. Other reasons include better quality of life, career development, and financial wealth (HSBC, 2015).

The cost of a full-time high-level executive is expensive for any company. Companies have adopted several policies that still allow executives to participate as an expat. First, there is the commuter assignment. The executive visits the foreign site for short periods while still commuting on weekends. Next, there are assignments that seek out expats that the firm can hire as a local employee. A local employee receives considerably less pay with less moving and travel costs.

Selection of expats depends on several variables relating to what the company needs and what the executive needs. As key indicators on an executive's suitability for international assignments, the company looks for executives who have leadership expertise, flexibility and adaptability, and technical skills in what the company produces (Brookfield Global Relocation Services, 2012).

Once a company selects an executive, preparation includes cross-cultural training, possibly language lessons, and social etiquette. Probably the best source of preparation success is consulting with previous expats who worked and lived in the same or similar location.

Compensation for expats depends on the reason for the assignment. If the assignment is in response to a threat or weakness in the company's position, the company compensates the expat for fixing the problem. The compensation for needed or difficult assignments is higher than if the company is sending the expat just to get experience. There are different schedules of compensation, but the most common is a base salary plus a foreign-service premium and cost-of-living allowances. Sometimes, there are allowances for housing, taxes, and transportation.

Repatriation of expats indicates that not all participants fared well upon returning to the parent company. Statistics indicate about one third of expats went on to have faster promotions and new assignments worthy of their international experience (Shaffer, Kraimer, Chen, & Bolino, 2012). It would seem that HRM emphasis is on selection and preparation of expats without planning a repatriation process.

Expatriate failure does occur. Failure is when a firm calls an executive home due to inadequate operational performance or the violation of some cultural etiquette that is upsetting to the resident population. The historical failure rate is 5% of all expats with China (19%) and India (7%) being the locations with the highest failures (Brookfield Global Relocation Services, 2012).

Staffing Frameworks

Staffing policy for a subsidiary sets the premise for the optimal ratio of local workers to expatriates. Once the staffing policy is set, secondary policies of selection, compensation, training, and repatriation are established. There are three different guidelines of staffing that parent companies use to select the staff for a subsidiary. They are ethnocentric, polycentric, and geocentric.

Ethnocentric: This staffing framework frames the culture of the parent company as better than other cultures it might encounter. Centralized companies prefer this type of staffing as it supports command and control from the parent company. Top-level executives selected for subsidiaries will come from the parent company. Back in Unit VI, the discussion of organizational culture mentioned Toyota's placement of over 700 executives in their automobile plants (Fackler, 2007). This is an example ethnocentric staffing. The advantage of this type of staffing is to keep the core values surrounding product production in place. The disadvantage is that high-level decision-making leaves out highly qualified executives from the subsidiary's home country.

Polycentric: This staffing concept supports placement of staff from the country in which the subsidiary resides. The home office recognizes that business practices differ in each country and that a local workforce would have fewer difficulties in dealing with regulations and government bureaucracy. Decentralized companies, such as fast food companies, prefer this method as decision-making is pushed down to the local level. Hiring local executives is much cheaper than filling the spot with a highly paid executive from the home office. The disadvantage is that allegiance to parent company's values is questionable. Local executives do not necessarily share organizational values as an expat would.

Geocentric: This staffing concept works by placing people with the best skills despite their background, origin, or culture. Their mantra is that ideas and innovations are everywhere if one is willing to open one's mind. Some evidence does suggest that this staffing concept produces the best financial performance (Barta, Kleiner, & Neumann, 2012). The disadvantage is the difficulty in finding well-trained people who can relocate to different countries multiple times.

Operations

The operations activity of the value chain is the "bread and butter" of any company. An operation activity is literally the conversion of inputs into outputs. This sector makes the product that the customer buys. Do not be confused if the product is tangible or intangible. Operations make the product or generate the service. For example, an oil pipeline company does not provide a tangible product, but they make it possible for oil to flow to market. The operations activity must be compatible to the company's competitive strategy. Operations must align with the five following factors:

1. *Efficiency and cost*: This explains why many companies move their manufacturing plants overseas. They are seeking a reduction in operational costs. For the companies seeking the cost leadership position, this is very compelling.
2. *Dependability*: At first, companies built their plants close to their customers so that price and delivery were reliable. Later, as transportation became cheap and reliable, companies found they could operate overseas and ship anywhere. This is still an important factor for those companies with only one or two large customers.
3. *Quality*: The product itself must perform as promised, be reliable and functional, and the company must offer an after-the-sale warranty on maintenance parts and service.
4. *Innovation*: Quite often, the operations sector is responsible for research and development (R & D). In some companies, R & D is a support function. Worth noting is that the majority of consumer R & D has moved overseas to emerging economies (The world turned upside down, 2000).
5. *Flexibility*: Operations must gear up to make different products and adjust for the volume of output. Some food producers optimize their assembly lines to produce different products as seasons dictate which fruits and foodstuffs are available.

Offshore manufacturing became a trend in the 1960s when companies first opened plants in Taiwan and Singapore. When companies found they could meet the factors above in an overseas location, the push to move operations out of the country moved quickly. Since that period, China has become the main location for manufacturing. In 2013, China ranked first in manufacturing, up from number four in just 20 years (Meckstroth, 2015).

Operational change is a normal part of business, but global integration and a speedup in communications technology and transportation now give a competitive advantage to the agile company that can turn on a dime in response to change.

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