Module 2142: Lecture 3

Challenges in International Management

SURREY BUSINESS SCHOOL

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MAN2142: Topics in International Business

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HRM Revision

Employee Categories and Staffing Policies in MNCs

Three Employee Categories in MNCs

- **Host-Country Nationals (HCNs):** Citizens of the country where the subsidiary or affiliate is located. HCNs make up largest proportion of employees that the firm hires abroad.

- **Parent-Country Nationals (PCNs):** Also known as home-country nationals, PCNs are citizens of the country where the MNE is headquartered.

- **Third-Country Nationals (TCNs):** Employees who are citizens of countries other than the home or host country. Most work in management and have unique skills.

Staffing Policies Approaches Comparison

Staffing Approach	Strategic Appropriateness	Advantages	Disadvantages
Ethnocentric	International	Overcomes lack of qualified managers in host nation Unifies culture Helps transfer core competencies	Produces resentment in host country Can lead to cultural myopia
Polycentric	Localization	Alleviates cultural myopia Inexpensive to implement	Limits career mobility Isolates headquarters from foreign subsidiaries
Geocentric	Global standardization and transnational	Uses human resources efficiently Helps build strong culture and informal management networks	National immigration policies may limit implementation Expensive

Source: Hill, 2014

Topics for Discussion

- International Staff Assignment
- Executive Staffing Strategies and Practices
- Executive/Management Development
- Performance Appraisals
- Compensation and National Difference
- Global Mobility Trends

Definition: Top Management Teams

- There is a great deal of research on the way executives and other levels of management behave. The two most commonly discussed theory in business research are:

1. Upper Echelons Theory '**UET**' (Hambrick and Finkelstein, 1987)

2. Top Management Teams '**TMT**' (Brown and Treviño, 2006)

- These theories are inter-connected, e.g. Hambrick has published work on TMT (Hamrick et al. 2015)

Challenges to Managing TMT in IB

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- Recruiting, managing, and retaining human talents at a firm with extensive global operations are especially challenging.

- A wide range of market entry strategies leads multinationals to complex situations for managing executives in cross-cultural business environment.

- There are **3** major types of risk associated with FDI, particularly in M&A:

  1. Market
  2. Employee Business
  3. Cultural integration

- Example: HP's acquisition with Compaq in 2002 versus Lenovo's acquisition with IBM in 2014.

Mini Case-Study: HSBC

- HSBC Middle East employs around 9,8000 staff (approx. 4% of global pool). 3,000 of which are in the UAE (HSBC, AR 2018).
- The UAE government supports expatriate workers and allows expatriate management policies that require expatriate workers in top ranking positions.
- A firm's expatriate management policy and staffing policy in the UAE must support local workers in the organization to ensure that the regulations of the country are satisfied.
- The involvement of local workers also has the benefit of organisational learning based on workers' local knowledge of the UAE market.
- UAE citizens only account for small percentage of HSBC employees.
- HSBC must compete against a multitude of local banks for their best staff.

HSBC

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- What staffing strategy do you think HSBC is pursuing in UAE?

- Can you see any potential problems/challenges that the company might encounter to manage expatriate managers as a result of this policy?

International Assignment Adaption Cycle

Expatriate Role Transition Theory

Role Transition Theory (Nicholson, 1984)

- Role Conflicts: Contrasting cues regarding job expectations
- Role Novelty: Differences between host and home country work roles
- Role Discretion: Decision-making autonomy
- Role Ambiguity: Uncertainty regarding the position's requirements

Role 1

Role 2

Executive Staffing Strategies

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- Nature of Industry
- Home country conditions and company profile:
  - Level of uncertainty avoidance (UA)
  - Cultural and physical distance between home and host
  - Size of the company
  - R&D intensity
  - Internationalisation

- Host Country Conditions:
  - Political (risk)
  - Economic system (e.g. FCs)
  - Socio-cultural environment
  - Education level
  - Cost of living

- Subsidiary profile:
  - Reporting distance from HQ
  - Level of maturity (i.e. Size; Age)
  - Performance
  - Share of ownership (e.g. Acquisition)

Hofstede's 6 Cultural Dimensions

CULTURAL DIMENSION	REMARKS
Individualism vs Collectivism	A society's preference of a loose-fitting social framework (the 'I') versus a more familial structure of intergroup loyalty (the 'We').
Indulgence and Self-Restraint	Differences between permissible societies that allow for basic and natural gratification of human needs against societies with strict, more religiously based, social norms.
Long- and Short-Term Normative Orientation	This Confucian dynamistic approach gauges a society's relationship with the past while dealing with future.
Masculinity vs Femininity	Easy-going vs strict work discipline.
Power Distance	An expression of the strength of social hierarchy and the test of inequity on the distribution of power.
Uncertainty Avoidance	How members of society manage and are threatened by uncertainty and ambiguity.

(Source: Hofstede, 1980)

Hofstede's Modelling of Organisational Culture

CULTURAL COMPONENTS	REMARKS
Leaderships Acceptance	Degree to which leadership is acknowledged and the willingness to adhere to instructions from that leader.
Organisational Identity	Organisation loyalty by individual agents.
Easy-going vs strict work discipline	Level of internal discipline.
Employee-orientated vs work orientated	Focus on needs of the agent versus overriding drive for organisational performance.
Internally driven vs externally driven	Discretion bias; links to strength and form of organisational leadership.
Local vs Professional	Loyalty orientation: team versus professional responsibilities.
Means-orientated vs goal-orientated	Normative ethical positioning: focus on how something is achieved versus what is achieved.
Open vs Closed	A preference for openness or transparency in action.

(Source: Hofstede, 2018)

Executive Staffing Strategies

How staffing strategies affect the overall skill levels of managers and international management development for MNCs?

- Ongoing management education
- Rotations of managers through jobs (e.g. location; global team)
- Performance appraisal and compensation scheme
- Interaction between corporate risk strategies and top management (e.g. tax avoidance risk)

Performance Appraisal

- **It is useful to evaluate the performance of managers against some criteria that the firm judges to be important**

- **An important element of firm's control system by measuring:**

    - Objectives
    - Collegiality, Administration, Leadership and Management (CALM)
    - Professional development

- **However, evaluating TMT's and especially expatriates can be complex.**

Salaries (Compensation)

- **Managers and staff are rewarded** taking actions that are consistent with the strategy of the corporation.

- **This 'compensation' is adjusted to reflect differences in economic circumstances and compensation practices?**

- Most firms use the **Balance Sheet approach: Equalizes purchasing power** across countries so employees have the same living standard in their foreign posting as at home

- **It adds a financial incentive** to take the position abroad, i.e. base salary, foreign service premium, allowances, taxation, benefits etc.)

Financial Compensation: National Differences

How can this contribute to negative deviance?

Global Mobility Trends

A global team includes a collection of managers in or from several countries who must rely on **Group Collaboration**

Teams must provide the means to communicate corporate culture, develop a global perspective, coordinate and integrate the global enterprise, and be responsive to local market needs (e.g. EMEA and AMER)

Global Talent Management (GTM)

Drivers of GTM challenges:

Exogenous:

- ✓ Globalisation
- ✓ Demographics
- ✓ Demand-Supply Gap

Endogenous:

- ✓ Region-centrism
- ✓ International strategic alliances
- ✓ Required competencies

Global Virtual Team

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Virtual Team Challenges

Geographic dispersal:
the complexity of scheduling communications across multiple time zones, holidays, and so on

Cultural differences:
variations in attitudes and expectations

Technology:
variations in availability, speed, acceptability, and so on

Language and Communication:
translation difficulties, variations in accents, semantics, and so on

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