

CHICAGO FOOD AND BEVERAGE COMPANY: THE CHALLENGES OF MANAGING INTERNATIONAL ASSIGNMENTS

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CASE DESCRIPTION

The primary subject matter of this case concerns the management of expatriate managers with a particular focus on their recruitment and compensation. Secondary issues examined include the internationalization strategies of a multinational company and particularly the alignment of international strategy and headquarters' orientation regarding the international human resource management policy. The case has the difficulty level of six (appropriate for second year graduate level). The case is designed to be taught in three class hours and is expected to require five hours of outside preparation by students.

CASE SYNOPSIS

The Chicago Food and Beverage Company (CFB Co.) is an American multinational with subsidiaries in North America, Europe and Asia. The case is about the alignment of CFB Co. internationalization strategy and the orientation of the head office in regard to its international human resource management (IHRM) policy and management of international assignments, with an emphasis on expatriates' recruitment and compensation. The case describes the international development of the company and the subsequent expatriation of Paul Fierman, the head of the Vietnam subsidiary. Paul's three-year mandate includes the preparation and execution of the strategy to synergize the three Asian subsidiaries (Singapore, Hong Kong, Vietnam) with the collaboration of the head of the Pacific Rim, which should allow CFB Co. to conquer the Asian market. Six months after his arrival, Paul Fierman is disappointed by the financial conditions of his contract and by his relationships with local colleagues, not to mention the difficulties his wife has been having adapting to this new environment. The discussion of this case in class allows introducing and illustrating the theoretical concepts related to the following topics: 1) internationalization strategies and international human resource management policies; 2) strategic management of international postings; and 3) advantages and disadvantages of different international compensation methods.

INSTRUCTORS' NOTES

Teaching Objectives

This case allows the introduction and illustration of theoretical concepts which are related both to internationalization strategies and to the management of international staff.

This case can be studied under one or many angles: the internationalization strategies, the management of expatriate managers, their recruitment and compensation in particular. The case includes a lot of information and students must classify and use it in order of its relevance.

In Which Programs, in Which Types of Classes

This case was originally written for use in human resource management or international human resource management (IHRM) classes offered in MBA or M.Sc. programs.

We recommend distributing the case one week before the discussion session and asking the students to prepare the case at home, given its length. The discussion of the case in class could easily take three hours.

Sources and Methods of Data Collection

This case is fictitious, although inspired by true events. We based ourselves on observations in many companies, IHRM articles and the subjects broached during interviews with expatriates carried out during our doctoral studies. The data on the Vietnamese context are real and were gathered on different web sites available on the internet.

Links with Which Functions

This case is useful for examining the function of international human resources managers or the functions of expatriate managers in general.

USING THE CASE IN THE CLASSROOM

The professor can begin by indicating the problem of managing international employees in the context of a strategic joint venture of the type used by today's companies.

The professor can also divide the class up and ask each group to examine a different aspect of the problem.

Questions for the Preparation of Students' Discussion in Class

We propose the following themes for discussion:

1. The alignment of international strategy and the headquarters' orientation regarding the IHRM policy;
2. The strategic management of international postings with emphasis on two subjects:
 - 2.1. The filling of international posts;
 - 2.2. The compensation of international managers.

THEME 1: ALIGNMENT OF INTERNATIONAL STRATEGY AND HEADQUARTERS' ORIENTATION REGARDING THE IHRM POLICY

1. Which internationalization strategies do you recognize in this case study?

| Table 1: Types of international organization configurations (Bartlett & Ghoshal, 1989) | | | | |
|---|---|--|---|---|
| Organizational characteristics | Multinational | Global | International | Transnational |
| Configuration of assets and capabilities | Decentralized and nationally self-sufficient | Centralized and globally scaled | Sources of core competencies centralized, others decentralized | Dispersed, interdependent, and specialized |
| Role of overseas operations | Sensing and exploiting local opportunities | Implementing parent company strategies | Adapting and leveraging parent company competencies | Differentiated contributions by national units to integrated worldwide operations |
| Development and diffusion of knowledge | Knowledge developed and retained within each unit | Knowledge developed and retained at the centre | Knowledge developed at the centre and transferred to overseas units | Knowledge developed jointly and shared worldwide |

Bartlett & Ghoshal (1989) distinguish four types of strategies or international organizational configurations: multidomestic, international, global and transnational (see Table 1). In this case study, after the domestic expansion phase in the United States (1960-1985), we recognize the following internationalization strategies. From 1985 to 1998, each subsidiary maintains a specialized production destined for a domestic market, which corresponds to the multidomestic configuration. Then, in the new, more complex configuration (after 2000), we find multidomestic, global, and

transnational elements. Here, we can also spot the characteristics of the global configuration: certain primary products will be standardized and produced by certain subsidiaries for all the other subsidiaries. Finally, all the subsidiaries will be interdependent and will depend on certain products coming from other subsidiaries, but at the same time they will continue to produce local specialties (we are therefore talking about an integrated structure): these are elements and characteristics of the transnational configuration.

The professor can insist on the fact that we never see a configuration in a pure state, but that we recognize certain tendencies and typical characteristics.

2. What is the HRM orientation adopted by the headquarters? What comments can you make concerning this choice? What can you recommend to the company's headquarters in this sense?

Perlmutter (1969) was the first to distinguish three ways to apprehend HRM in international corporations: ethnocentric, polycentric and geocentric. A fourth way of conceiving HRM policy was subsequently added to these: regiocentric (Dowling et al., 1999).

In this case, we recognize an ethnocentric orientation. HRM in an ethnocentric orientation does not give any decisional autonomy to the subsidiaries, the strategic decisions are taken at headquarters and the subsidiaries are managed by the expatriate employees from headquarters. Also, the head office makes all the important decisions about the management of international postings (recruitment, selection, training, etc.).

The professor can ask students to examine the pertinence of an ethnocentric orientation in the actual situation. In this case, we see that a new structure is being built; the leadership comes from the world headquarters. No regional leadership has yet been developed. However, in the medium and long term, the ethnocentric vision does not correspond with the vision of the integrated structure. The head office should examine the possibility of adopting a regiocentric vision. The American headquarters should begin building regional leadership by further implicating the Asian office in the management of the Asian subsidiaries. In reality, the change from the ethnocentric to the regiocentric perspective is long and hard. The markets in the United States, Europe and Asia are very different, as is the management.

In the context of the regiocentric approach, regional decisions are made in the regions, thereby reflecting the strategy and geographic structure of the multinational. The HRM practices are harmonized in the subsidiaries of a given region. The regional managers benefit from autonomy in decision-making relative to their respective regions. These managers can be promoted in the regional units, but rarely to a post at the world headquarters.

THEME 2: STRATEGIC MANAGEMENT OF INTERNATIONAL POSTINGS

1. **Is Paul Fierman a good candidate for this expatriation position? Here we discuss Paul Fierman's mission, from the description of his position, the profile of the ideal candidate and Paul Fierman's actual profile. Does Paul Fierman correspond with the ideal candidate? What is Paul Fierman's mission?**

Three year mandate, to manage the subsidiary, implement the new organizational strategy (synergizing the three Asian subsidiaries).

What is the profile of the ideal candidate (define the competencies necessary to successfully carry out this mandate)? What is Paul Fierman's profile? (see Table 2).

| Table 2: The profile of the ideal candidate and Paul Fierman's profile | |
|--|--|
| The profile of the ideal candidate for Paul's position | Paul's actual profile |
| Good management education | Good management education |
| Specialist in inter-organizational restructuring | Product head, marketing specialist |
| International experience | Some international experience: one year as an exchange student at Oxford (always an English-speaking milieu) |
| Linguistic skills | English as a first language |
| Knowledge of Asian cultures | - |
| Adaptability, cultural sensibility | - |

2. **What comments can you make on the expatriation management in general? And what comments can you make on the expatriate recruitment policy in particular?**

The strategic management of expatriates includes at least six following steps:

1. Strategic planning of the positions
2. Staffing (job analysis, recruitment, selection, orientation)
3. Orientation/training for the post in relation to the culture of the host country
4. Adaptation to the position and the support policy for international employees
5. Management of performance
6. Management of the repatriation

1. *Strategic planning:* We will have the students note that CFB Co. does not seem to strategically plan its needs and resources in international managers. The replacement of Paul Fierman's predecessor had not been envisaged before it became necessary and no potential candidate had been identified.

2. *Staffing:* We orient the discussion towards the different steps of the process of filling the post: job analysis, recruitment, selection. It is important that the students note the absence of a reflection period by the company on its procedure for filling the post. The methods used to fill the post in the case are indeed quite questionable. The students can examine the three following aspects in detail:

Job analysis: The description of the position and the profile of the competencies sought do not seem to have been laid out professionally.

Recruitment: According to the information given in the case, the company did not formally publish or announce the opening up of the position and made no effort to generate candidacies internally or seek out qualified candidates. In this case, the company uses a close recruitment system (the opening up of new positions and the candidacies are confidential).

Selection: Many errors were made. Firstly, the selection criteria were not determined in a professional manner using a description of the position. Further, CFB Co. did not use any of the formal and valid selection methods (structured meeting, examination of previous evaluations, verification/tests of pertinent international competence and experience, evaluation centre). Finally, the question of the selection of the evaluators should come up. The head of the regional office that best knows the situation of the Haiphong subsidiary should have participated in the selection of the new head manager.

The selection process took place in a totally informal manner.

3. *Orientation/ training.* The headquarters is supposed to furnish the future expatriate with precise and useful information about the position to be filled (description of the tasks, the responsibilities, professional challenges), the characteristics of the regional office and its employees and the environment in the host country (local culture, logistical information, practical information on life in the new country). In our case, no useful information was given to Paul before he arrived on the scene. The American and regional offices should have organized a meeting between Paul and his predecessor and verified that Paul met regularly with his superior, who should also have had a role to play as a mentor, at the regional office. Finally, the professional and intercultural training were non-existent.

4. *Adaptation to the position and the support policy for international employees.* The adaptation of expatriates comprises three facets: the adaptation to the work, to the interaction and to local life (Black and Gregersen, 1991). Paul Fierman seems to

be suffering in all three of these aspects. He seems to be caught up in the cultural shock phase, which is quite ordinary, six months after his arrival.

We then discuss the role of the international head office and the regional office in the support policy for international employees. CFB Co. offered Paul no social or professional support, either in relation to his new role as head manager or in relation to the culture of the country of his recent posting (Waxin, 2004 ; Waxin and Chandon, 2003). The fate of Paul's wife and daughter were simply ignored by the company.

5. *Management of performance.* The world headquarters is supposed to set the objectives of the mandate in collaboration with the expatriate manager, or at least clearly explain the methods used to evaluate performance, provide the professional and social support necessary for him to fulfill his mandate and finally to regularly follow the performance of the expatriate. None of these actions were taken in this case.

6. *Repatriation.* The head office is supposed to explain and predict, with the expatriate, the different options relative to the return to the home country. The competences acquired during the expatriation should be taken into account.

THEME 3: THE COMPENSATION OF INTERNATIONAL MANAGERS

The professor can begin by reminding students of the objectives of the compensation policy. For a compensation policy to be effective, it must meet the following objectives:

- ◆ Attract and retain employees who are qualified for work abroad;
- ◆ Establish and maintain internal equity between the employees of all the affiliates, whether in the home country or abroad;
- ◆ Maintain compensation which is reasonable and competitive in relation to the practices of its main competitors (external equity).

Then, the professor focuses on the question of the challenges related to international compensation policy. The context of the globalization of markets poses some important challenges in regards to the management of expatriates' compensation. For the multinational, one of these challenges is the control of the cost of international labour. It is thus crucial for the company to efficiently manage this investment and even more so if it employs a significant number of expatriates. Harvey (1993) cites the following four other challenges:

- ◆ The assurance that there is equity in the compensation of home country, host country and third country nationals;
- ◆ The adaptation of compensation solutions to the variations in the needs of the expatriates in accordance with the level reached in the family cycle;
- ◆ The management of the repatriation;
- ◆ The difficulty in changing an existing compensation system.

1. What are the different expatriate compensation methods you recognised in the text? What are the advantages and disadvantages of these different expatriate compensation methods?

The professor can propose that the students fill out the following table (see Table 3), indicating the advantages and disadvantages, for the company and the expatriates, of the different methods of compensation used by CFB Co.

| Table 3: The advantages and disadvantages of these different expatriate compensation methods used by CFB Co. | | | | | | |
|---|-----------------------|------------------------|------------|-------------|---------------|-------------|
| Year | Number of expatriates | Compensation method | Advantages | | Disadvantages | |
| | | | Company | Expatriates | Company | Expatriates |
| 1985 - 1998 | Few expatriates | Negotiation approach | | | | |
| 1998 - 2002 | 25 expatriates | Mixed method | | | | |
| | - 20 <i>seniors</i> | International approach | | | | |
| | - 5 <i>juniors</i> | Balance sheet approach | | | | |

This exercise in the comparison of methods will allow students to properly understand the differences between the methods of compensation of expatriates.

The negotiation approach was used by the company at the beginning of its international activities from 1985 to 1998. Because CFB Co. had little international experience, it tried to keep the management of expatriates flexible and justifiable. However, even if this approach is easy to manage and requires little data, there is a risk of creating inequities between the expatriates, and that the system will become costly when there are more expatriates. This method can also be time-consuming because the compensation contracts have to be renegotiated each time the country of the posting changes.

The balance sheet approach applies to Paul Fierman as a junior expatriate. Following this approach, the employer attempts to equalize the buying power in the host country with what the expatriate enjoyed in his host country, assuming the costs that exceed the expenses that the

expatriate would normally have to make in his home country. This method presents many advantages: it allows the expatriate to maintain his lifestyle, it facilitates the adaptation of family members to the changes in daily life in a foreign country, it facilitates the repatriation and promotes internal equity in relation to peers in the host country. However, the balance sheet method generates little incentive to accept a posting abroad. To encourage geographic mobility of employees, certain companies offer expatriates particular incentives, like overseas mobility bonuses. In other cases, international experience is seen as a determining factor in career advancement, where the manager who successfully fills his expatriation mandate might receive a promotion in the multinational upon his return (this is the case for Paul Fierman). This approach can be expensive, difficult to manage and requires a lot of information about the cost of living index, salary comparisons and foreign tax legislation.

A poll carried out among Canadian multinationals in April and May 2003 by Mercer Consulting and WorldatWork revealed that more than 50 % of companies use the balance sheet approach. Only 10% of respondents use the method of host country compensation, which is basically the local compensation without any other form of indemnity.

The international method applies to senior expatriates at CFB Co. This method clearly favours the expatriates, because the compensation offers are attractive and include various mobility bonuses and the payment of various expenses abroad. This method is very costly for the company. It is therefore essentially reserved for expatriates who have proven themselves in the company, in terms of competence and potential. This approach encourages mobility and facilitates the management of the return because the expatriate continues to progress on the national scale upon his return to the home country.

The mixed method means that different expatriates in the same company can be compensated according to different methods. In the case of CFB Co., the balance sheet approach is applied to juniors and the international method is applied to seniors. For the multinational, this approach seems to be privileged as it lets it apply different methods of international compensation for different categories of expatriates (the differences can be based on international experience, seniority, functions, etc.) and save on costs. On the other hand, it complicates the management of compensation and there is a risk of creating a feeling of inequity between the different categories of expatriates.

2. What do you suggest to the U.S. headquarters' human resources manager in order to improve the expatriate satisfaction / compensation?

Firstly, the international human resource manager must communicate and explain in detail the different types of expatriation, the different types of competencies required and the different compensation methods (balance sheet and international approaches) of international managers. Paul was not realistic in his expectations in relation to his compensation, in part because he was not

properly informed about the compensation policy for international managers in the multinational. In Paul's case, it is important to note that his expatriation also played a training role. Paul's skills are different from those of the senior expatriates with whom he is comparing himself.

Students can propose the following changes in the compensation policy for expatriates. The professor must point out that there is no single correct method for managing the compensation of expatriates, but rather one optimal method according to the organizational culture and strategy of the multinational.

The generalization of the balance sheet approach to all expatriates. To achieve greater equity between international employees and better control labour costs, we could generalize the balance sheet approach, but the seniors would find it difficult to accept a reduction in their actual compensation. The reasons for the change must be explained and the international compensation policy must be communicated to the managers involved. The cafeteria approach. The salary is fixed as a function of the compensation scale in the home country. The company furnishes a total amount of indemnities and the expatriate chooses to spread out this amount per expense that he will make in accordance with his personal needs. This approach creates more flexibility for the expatriate and it can increase his satisfaction as it better meets his needs. However, when the number of options offered to expatriates is high, this option becomes very complex and costly to manage.

The modified balance sheet approach. Here the salary of the expatriate is related to the region of his expatriation, in the case of Paul Fierman, the Pacific Rim. Among the advantages of this approach we find the fact that it matches up well with the company's regiocentric approach, it preserves the link between the structure of compensation and advantages for the expatriate with what is practiced in the home country and thus facilitates repatriation to the country with the better salaries. This approach is quite simple to manage because it offers all expatriates in a given region the same amount of indemnities based on the index of the most expensive country of posting among all the possible destinations in the region. However, this method is more costly than the balance sheet approach and repatriation is more difficult if the salaries in the home country are lower than those of the country of the posting. Finally, this method creates a risk of generating inequities between expatriates posted in different host regions (regions where the cost of living is higher versus regions where it is lower). This method is particularly well-adapted with a regiocentric IHRM approach.

The host country method is traditionally adopted when the expatriate is remaining in the host country for a very long duration or when his return to the home country is not considered desirable by the head office. The expatriate's salary is determined in relation to the salaries offered in the host country for similar positions, the company providing certain allocations and advantages to expatriates and their family members if the lifestyle of the host country is inferior to that of the home country. This alternative does not seem efficient in our case because neither Paul Fierman nor the other senior expatriates seem to want to remain in their host countries for an extended period of time.

Time or Sequence Suggested for Each Point to Be Covered

The students can individually prepare this case study, which would have been handed out at the previous session. The case study can be the subject of a discussion in class lasting about three hours. For example, the professor can spend one hour on the alignment of a strategy and the strategic management of international postings, one hour on the filling of the position and one hour on the compensation of international managers.

ACCOMPANYING TEXTS, CONCEPTS AND THEORIES

The authors suggest that the students read a few of the following texts before they are asked to prepare the case study.

Black, J.S. & Gregersen, H.B. (1999). The right way to manage expatriates. *Harvard Business Review*, March-April, 52-62.

Bennett, R., Aaton, A., & Colquhoun, T. (2000). Cross-cultural training: a critical step in ensuring the success of international assignments. *Human Resource Management*, 39(2&3), 239-250.

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Sims, R. & Schraeder, M. (2005). Expatriate compensation: An exploratory review of salient contextual factors and common practices. *Career Development International*, 10(2), 98-108.

St-Onge, S., Magnan, M., Prost, C. & Biouele, S.-P. (2002). Gérer la rémunération dans un contexte de mobilité internationale: l'art de jongler avec différentes perspectives. *Gestion*, 27(1), 41-55.

- Suutari, V. & Tornikowski, C. (2000). The challenge of expatriate compensation: the sources of satisfaction and dissatisfaction among expatriates. *The International Journal of Human Resource Management*, 32(2), 54-66.
- Waxin, M.-F. & Panaccio, A.J. (2005). Cross-cultural training to facilitate expatriate adjustment: it works! *Personnel Review*, January, Special Issue on Global Human Resource Management.
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- Waxin, M.-F. & Chandon, J.-L. (2003). L'adaptation au travail des expatriés: ses déterminants et l'effet du pays d'origine. *Revue de Gestion des Ressources Humaines*, 47(1), 57-71.
- Wentland, D.M. (2003). A new practical guide for determining expatriate compensation: the comprehensive model. *Compensation and Benefits Review*, 35(3), 45-50.

LINKS WITH CONCEPTS AND THEORIES

The professor has the choice to introduce these themes before the discussion of the case study or to use the case study to introduce these concepts and theories:

Different internationalization strategies for multinationals;
The filling of positions and compensation in an international context;
The management of international managers.

ADDITIONAL BIBLIOGRAPHY TO HELP THE PROFESSOR

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- Saba, T. (2001). La GRH dans les entreprises internationales : une réalité complexe et des exigences nouvelles. *Effectif*, janvier-février-mars, 22-30.
- Stroh, L.K. & Caliguiri, P.M. (1998). Increasing global effectiveness through effective people management. *Journal of World Business*, 33(1), 1-17.
- Welch, D. (1994). Determinants of international human resource management approaches and activities: a suggested framework. *Journal of Management Studies*, 31(1), 139-163.

SELECTED QUESTIONS FOR CASE DISCUSSION

Topic 1: Alignment of International Strategy and Headquarters' Orientation Regarding the International Hrm Policy

1. Which internationalisation strategies do you recognise in this case study?
2. What is the HRM orientation adopted by the headquarters? What comments can you make concerning this choice? What can you recommend to the company's headquarters in this sense?

Topic 2: Expatriation Management

1. Is Paul Fierman a good candidate for this expatriation position?
2. What comments can you make on the expatriation management in general? And what comments can you make on the expatriate recruitment policy in particular?

Topic 3: Compensation of International Staff

1. What are the different expatriate compensation methods you recognised in the text? What are the advantages and disadvantages of these different expatriate compensation methods?
2. What do you suggest to the U.S. headquarters' human resources manager in order to improve the expatriate satisfaction / compensation?