International HRM

Noordhoff Uitgevers

Maike de Bot

First Edition

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Introduction

Fierce competition at home markets, accelerated technological development and appealing opportunities lead companies to look for new business chances abroad. The Netherlands, with its history of foreign trade and heavily relying on export, is home to a particularly high number of companies that have gone international or are considering. Employees will be affected by international activities calling for Human Resources policies to be scrutinized and adjusted in order to accommodate these kinds of changes.

Many books have been written on International HRM and some of these have been incorporated in this book with sincere gratefulness. The books by for example Chris Brewster, Eileen Crawley and Peter J. Dowling largely focus on the academic field of comparative HRM. A void was observed for practical knowledge and insight to support (future) HR managers that are dealing with international activities of the organization they are employed with. This book facilitates these practitioners by identifying aspects that are crucial in view of foreign activities. Without being comprehensive for every country mentioned, the book aims to highlight all relevant issues regarding legislation, taxation, cultural disparities and country specific HR practices. Ignorance of major differences between the home country and host country of international activities can result in illegal practices jeopardizing the company's existence or result in ineffective HR management at the very least.

With (American) English as the common language for businesses in a significant part of the world it was opted to write this book in (American) English. This way makeshift translations were avoided and those who need to improve their proficiency have a chance to do so. To encourage and not frustrate English learners the intent is to address B2 level of the Common European Framework of Reference for Languages (CEFR).

This book was written with great pleasure and with the input from publications of many scholars, former colleagues and reporters. Several (former) colleagues from business and education have provided additional input for which the author is thankful.

Spring 2019,
Maike de Bot

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1.9 Expatriates

International HRM focuses on companies that have extended their business abroad and are faced with related HRM issues. These stem from sending employees from their home country to work abroad, employing local staff abroad or having people from abroad to work at the company's home country. Due to new situations the company is faced with, it is vital to have knowledge about relevant aspects such as local legislation, foreign taxation schemes, country-specific practices and cultural differences. This book follows the conventional classification of HR processes that can be briefly summarized as in, through and out. Acquiring insight in international HRM might not just foster and support future international endeavors but could even be beneficial to HR managers if their company's international activities are limited to for example having a foreign trade mission coming over for a visit or managers making frequent business trips abroad.
This book focuses on profit companies that have strong ties abroad through subsidiaries, divisions or joint ventures located in one or more countries outside their home country. As non-profit organizations are not likely to venture abroad, exceptions notwithstanding, these types of organizations are not explicitly included. Regarding staff of international companies, the book strongly focuses on expatriates. Their assignments abroad capture all possible issues related to working abroad. This does not exclude other types of international employment constructions and many of the expatriate issues can be related to other types of international assignments as well.

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Walmart: learning to adjust

With more than 11,000 stores in 28 countries you would think Walmart could make it anywhere. But in Germany Walmart was forced to close its stores, evaporating the 863 million dollar investment that was made (Brewster et al., 2013). Many authors have offered theories on why the German adventure collapsed. It could have been all the plastic products the store offered, the strong competition from Aldi, a bad choice in store locations or ongoing struggles with labor unions, as Macaray (2011) puts forward. But most remarkable of all was the choice by Walmart to force behaviors on German employees that might be custom in US retail but did not go down well in Germany. For example joining in group chants at the start of shifts to boost morale and being obligated to smile to customers (Marcaray, 2011). German customers felt very uncomfortable because of all the smiling and they didn't appreciate the help offered while shopping either (Brewster et al., 2013). Not surprisingly, the German operation was headed by a US expatriate who paid little attention to the employee's feedback nor did he make any effort to get to know the German culture and retail (Brewster et al., 2013).

Fortunately, Walmart learned from this costly disaster, according to a Walmart spokesperson who called it a turning point for the company in expanding its business abroad. It learned to be more sensitive to country-specific cultures and customer needs (Landler, et al., 2016). At other foreign locations Walmart was able to advert failure by correcting initial mistakes in a timely matter, such as selling golf clubs in Brazil where golf is unknown, and placing shelves in South Korean stores at such a height that customers had to use ladders to reach for products (Landler, et al., 2016). Today, Walmart revenues abroad outscore those in the US, Walmart's home country.

Source: corporate.walmart.com

1.1 Internationalization and globalization

Internationalization

If a company is active in just one country apart from its home country or has divisions in numerous countries on nearly all continents, it is considered an international one. Internationalization is used to indicate that a company has expanded its business beyond its home country without a set minimum number of countries or limitations in type of foreign activity. Operating internationally often implies the company has to make major adjustments to for example the product or marketing strategy to connect to foreign markets.

A yardstick for the international success of companies can be found in its worldwide revenues. The Fortune 500 magazine and website publish the top 500 companies based on their revenues, profitability and size measured by the number of employees. Several studies have suggested that the majority of successful businesses – that have shown to have effective international strategies – have at least one person as part of their management team that has a foreign background as a first or second generation migrant. Microsoft, Google and Facebook are examples of directors with a foreign background. Steve Jobs, founder of Apple, was a Syrian migrant himself. Figure 1.1 depicts the top 10 of those 500 companies in 2017 with revenues in million US dollars showing Walmart's revenues reaching roughly 500 billion dollars or 500,343,000,000 dollars to be more precise. It does not imply Walmart is the most profitable company worldwide as costs need to be deducted from revenues to determine profits. In the Fortune list of most profitable companies Walmart came in at position 11, having to give way to others like telecommunication company Verizon (3rd place), insurance company Berkshire Hathaway (2nd place), and Apple (1st place). Still, Walmart's performance is not bad with 9,862,000,000 dollars profit in 2017 (fortune.com).

FIGURE 1.1 Top 10 of Fortune 500 companies in 2017, with revenues in millions of US dollars

Company	Revenues
1 Walmart	500,343
2 Exxon Mobil	244,363
3 Berkshire Hathaway	242,137
4 Apple	229,234
5 United Health Group	201,159
6 McKesson	198,533
7 CVS Health	184,765
8 Amazon.com	177,866
9 AT&T	160,546
10 GM	157,311

Source: www.fortune.com

Globalization

The word globalization is in ways similar to internationalization as it indicates foreign connections. Additional to internationalization it also points to an overarching foreign influence on a company or companies in general. Therefore, it is not simply a description of activities abroad but refers to the changed core of the business leading to a more global view of the company's management (Ebbers, 2016). Crossing country's borders, literally or

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in a more figurative way of speaking, is no longer considered an obstacle by management but part of their everyday reality when embraced a global view. When scrutinizing the context of the organization, being the main task of the management, changes in foreign markets, foreign politics and competitors from other nations are naturally taken into account. Dowling et al. (2017) refers to the global industry to indicate certain types of large companies within a certain industry that have their market position in one country influenced by their market position in other countries. The commercial aircraft industry and semiconductors are mentioned as examples of industries, and production companies of blockbuster movies might be part of the same league as well. The global industry assumes all companies that are active in the same field are active worldwide. Some industries show less homogeneousness and have none or just a single global player. A global player refers to a company that makes most of its profits outside its home country. Opposite of the global industry is the multidomestic industry according to Dowling et al. (2017) with insurance companies as an example. Their market position in one country is independent of their market position in other countries. A specific insurance company can therefore be a major player in Austria but at the same time play an insignificant role in insurance in Italy or offer completely different types of products in Italy compared to Austria.

Global industry

Global player

Multidomestic industry

In this book the word globalization is used for all kind of factors from abroad influencing companies to a significant extent. The word internationalization is limited to companies with business activities that surpass the home country's boundaries.

Contributing to increasing globalization

According to Ebbers (2016), more and more companies are affected by globalization. The factors contributing to this are listed below.

1 Companies that become global players

Apple and Unilever are examples of large companies well known around the globe. Many of these companies earn a large chunk of their revenues outside of their home country. They are considered global players, a type of company that becomes more and more common (Ebbers, 2016). Revenues amassed abroad made up more than 60% of Apple's revenues in the first quarter of 2018 (Statista on Apple). Unilever operates in over 90 countries counting for 93 per cent of its 53 billion dollars in revenues (Statista on Unilever). The presence of large companies like these affects other businesses such as suppliers or competitors and also employment opportunities at the locations they operate. The Fortune 500 companies employ over 28 million people worldwide, with Walmart in the lead with 2.3 million workers, as is shown in figure 1.2 (source: www.fortune.com). It is easy to see that the investment choices these companies make regarding location, products, research and employment affect many people and affiliated businesses.

FIGURE 1.2 Top 10 of the Fortune 500 companies with the highest numbers of employees

Company	Number of employees
1 Walmart	2,300,000
2 Kroger	443,000
3 Yum China Holdings	420,000
4 IBM	414,400
5 Home Depot	406,000
6 McDonald's	375,000
7 Berkshire Hathaway	367,700
8 Amazon.com	341,400
9 FedEx	335,767
10 UPS	335,520

Source: www.fortune.com

1

2 Relatively small domestic markets

Some major companies from the US have no need to go abroad in search of growth as they have more than enough possibilities to expand due to the huge domestic market of more than 300 millions of consumers with relatively high incomes (Dowling et al., 2017). Any international activity the company undertakes will likely receive little attention from top management because expanding is not a priority. More populous countries, such as India, have even higher number of inhabitants but, without the standard of living of a developed country, they offer fewer profitable opportunities to companies. China might follow the example set by some US companies with their home market as the main supplier of profitability, because the Chinese have seen their wealth increase year by year for the past twenty years, soon matching the standard of living of many developing countries, including the US. A small domestic market in number of inhabitants or low in spending money will make companies venture abroad in search of expansion opportunities. For example, the Netherlands, with just 17 million people, is known to accommodate a relatively large number of companies that are active abroad. The same is true for comparable countries such as Switzerland (8 million) and Ireland (5 million).

3 BRIC countries becoming future economic leaders

Gross Domestic Product

The US harbors the largest domestic market. Its economy is therefore the largest in the world based on its Gross Domestic Product. GDP represents the total value of all products and services produced within one country within a certain period of time, in this case a year. Calculated per capita, meaning per person, the GDP shows the added value per citizen. This is simply said determined by the value of all products and services produced, divided by the total number of inhabitants. As pictured in figure 1.3, the US GDP per capita outscores by far that of other countries. And the total GDP of the US is of course an incredibly high number thanks to its large population (18,570,000,000,000,000 US dollars in 2017 – 18.57 trillion).

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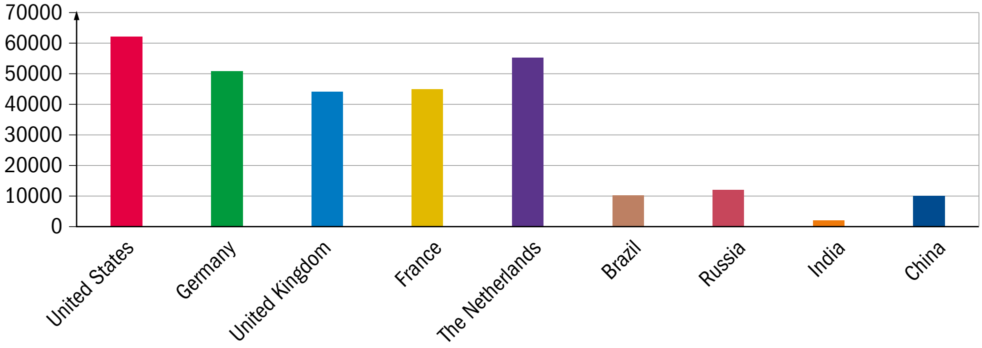
FIGURE 1.3 Gross Domestic Product in US dollars per capita, April 2018



Source: www.imf.org

However, the future might see a change in economic leadership with BRIC countries as the most likely competitors. The widely known acronym BRIC stands for Brazil, Russia, India and China. These countries have economies that have shown high growth figures in the past 10 years, making them stand out compared to their neighboring countries and those with established economies like most western countries. While western countries were suffering from the economic crisis, the BRIC economies were still booming and are therefore contributing to a more global environment for companies (Ebbers, 2016). Especially India and China see their GDP increase by around 8% a year and are expected to continue to show similar growth figures in the coming years with the US coming in at just 3% growth (Statista). And it is not just their growth figures that make BRIC countries possible economic leaders. It is first and foremost the combination of a sizable population with money to spend on more than the essentials to survive, ensuring a large domestic market of consumers and seemingly unlimited square kilometers of land available to develop for business purposes. This combination leads BRIC countries to becoming a promise for the future both as producers of products and services and as future consumer markets. China is already showing the world it is to be considered a major player both in supplying and consuming. It has invested heavily in its educational system and attracted many foreign businesses. Fairly recently, some Chinese businesses have started targeting foreign markets with products that are not just produced but also designed in China, such as Huawei smartphones. Already in 2015, of the Fortune 500 companies 106 of them were Chinese, climbing to 117 in 2017 (fortune.com). The increased prosperity of the Chinese has of course attracted attention from foreign businesses as well, offering opportunities to non-BRIC related companies.

At a summit with leaders of BRIC countries in 2010 the acronym was, not surprisingly, officially adopted as a badge of pride by these emerging economies. Since then, economic experts have launched alternative ranking lists of countries that hold a promise for the future but none have become as well-known as BRIC and no other countries seem to be as promising as India and especially China.

4 The availability of the internet

Thanks to the availability of internet and more and more sophisticated applications, international communication has become extremely easy and cheap, connecting companies and individuals all over the world. This fourth factor adds to a more and more globalized environment for companies, offering easy access to other markets (Ebbers, 2016) such as the US-based online shop Amazon which offers its online services to customers in Asia and Europe. In addition, the internet facilitates easy outsourcing of labor abroad. For example call centers in Indian companies that call credit card holders regarding late payments, have up to date information available on the customer's latest payments. Internet also provides information on new markets and facilitates locating and contacting new suppliers abroad.

5 Reduced costs of transport

The costs to ship products to markets abroad or to import ground materials from halfway across the world have been cut significantly according to Stiglitz (2002). For companies it can become interesting to target markets abroad or transfer production overseas. Thanks to strong competition, prices of air cargo have gone down as well over the past twenty years.

6 Reducing barriers for trade and moving of people

Many countries have allied with other countries to facilitate their mutual trade and moving of people. There is the North American Free Trade Agreement (NAFTA), which enables trade between Canada, the United States and Mexico by eliminating import tariffs and facilitating investments. The European Union has an agreement in place that applies to all member states allowing free travel of people and trade. This means that no visa is needed when a person from one country is going to work in another EU country and, just like with NAFTA, no import tax is owed. Another trade agreement exists between Hong Kong and China originating from Hong Kong's former position as a British colony. The colony status ended in 1987 when China refused to extend its lease to the United Kingdom. Hong Kong then became a region of China but with a special status allowing the Hong Kong people to retain a government with extensive autonomy. China does not impose taxes or other levies on trade between Hong Kong and China, and people can cross borders without any restrictions.
Facilitating trade and free travel of workers, which is the aim of the agreements mentioned, adds to globalization opportunities for companies (Stiglitz, 2002).

As can be concluded from the factors contributing to a more globalized economy, helping companies transform from domestic into global players, offers opportunities. From the perspective of a single company, the increased international activity generated by globalization can, however, become a challenge at the same time. A company not undertaking international activities can be affected by being confronted with an influx of competitors on its domestic market. This influencing beyond country boarders, even when not sought, is typical for globalization and sets it apart from internationalization.

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1.2 Economic models

From a company's standpoint it makes a significant difference how the government of the country where the company is active, views the economy. Through taxation, legislation, subsidies, trade agreements and the educational system, governments affect businesses. To understand a government's stand on these issues, it helps to characterize the economy. Characterizing the economies of countries at macro level is often done by referring to the well-known distinction between the Anglo Saxon model and Rhineland model. Both are capitalist models but follow a distinctive set of values.

Anglo Saxon model

The Anglo Saxon model of capitalism originates from the 18th century scholar in the field of economy, Adam Smith. Countries where English is the dominant language, such as the United States, United Kingdom, Ireland and Australia, have economies sculpted according to the models' values of:
- limited government interference by limiting regulations
- low tax rates
- services preferably left to commercial parties rather than appointed as public responsibilities
- strong emphasis on privately owned properties and businesses
- favoring free trade, opposed to trade limitations

For individuals, the Anglo Saxon model means that they are expected to take care of themselves. Thanks to low taxes and no compulsary insurance or retirement plans they enjoy relatively high levels of spending money and a free choice in how to spend it. People should ensure they save enough of their earnings in case they develop a health issue and need medical attention. Hospital visits and medication can be expensive. Private clinics often provide excellent care but are expensive. Sending your children to school can be a costly affair as well because private schools charge commercial rates but often provide much better quality education than public schools. Additionally, Anglo Saxon countries offer, in general, very limited social security. Making financial arrangements devoted to overcome unexpected unemployment is therefore necessary for individuals in order to prevent poverty. Countries following the Angelo Saxon model will have companies enjoy low taxes and few obligations, just like individuals. Becoming an entrepreneur by starting your own business is therefore a commonly taken path in most Anglo Saxon countries.
Although the Anglo Saxon model seems to imply equal systems for all countries that follow it, the governments of the countries mentioned run their countries slightly differently when taking a closer look. The government of the United Kingdom spends for example a lot more money on social security and healthcare than the US government. The Anglo Saxon model as described should therefore be considered to provide just a rough sketch of the fundamentals of the economies at hand.

Rhineland model

The Rhineland model relates to capitalism as well, but basic values of the economies differ from those of the Anglo Saxon model. Government interference is valued and accepted, allowing a higher level of social security provided to those not able to provide for themselves, such as unemployed and disabled people. The Rhineland model differs from the Anglo Saxon model in allowing widescale collective bargaining and employee representation.

Employees and employers are expected to work together to enable businesses to be become successful. According to the Anglo Saxon model, on the other hand, cooperation, and especially collectively organized cooperation, is to be avoided. It is viewed as limiting the management's freedom to maneuver and steer the business in the right direction to stay profitable. Germany, Belgium and the Netherlands are considered followers of the Rhineland model. No country will encompass all elements of the model. Just like the Anglo Saxon model, the Rhineland model should not be expected to be observable in an economy of any country to its full extent. For countries not mentioned, other models have been created, including a Nordic model for Scandinavian countries characterized by high social security levels combined with a strong emphasis of regaining employment when becoming unemployed. This could be considered a combination of two positions; one should take care of oneself and one should take care of weaker people in society.

Besides capitalism, there are economies that are based on communist beliefs. Russia, China and Vietnam are still considered to adhere to communist notions. Socialism is often employed as if interchangeable with communism. Some might say communism is a more radical version of socialism, and can therefore not be achieved without revolution. By adding communism as a characterization of a government's view of the economy, the discrepancy with the Anglo Saxon model cannot be greater. In the case of communism, the government is considered to be the center of all economic activities. The government strives for equal distribution of wealth between its citizens and therefore eliminating unemployment. Healthcare, education and such are government-run, and ownership of the country's assets, such as companies and ground materials, is shared by all. It shouldn't come as a surprise that the official name of China is the People's Republic of China. But with leaving the communist heydays in the past, Russia, China and Vietnam have opened up to allow for some capitalism by welcoming foreign investors and facilitating privately owned businesses.

Communism

With globalization leading to intensified contact between countries through its companies, pressure will build for governments to break down barriers that restrict international businesses. With similar forces in nations worldwide it becomes likely that more and more countries will share a somewhat similar type of economy in the future. As pressure stems from commercial parties, an economy leaning towards the Anglo Saxon model is the most probable outcome.

1.3 Going abroad

Making the change from a locally operating company to an international one is done for a variety of reasons. Focusing on profit companies, money is of course the main driver. According to Brewster et al. (2013), companies will look for opportunities abroad because of one or more of these three reasons:

1 market
2 cost advantages
3 a foreign government favorable to companies

1

Ad 1 Market
If a company has identified a customer market outside of its current market that would be interested to target with its current product range, the company could take that opportunity and expand its business. When no or few adjustments need to be made to the product range, the company increases sales without adding extra costs. A new customer market is not necessarily found abroad because a company could, for example, decide to not just target families with children but include senior citizens in its future marketing approach as well, all within the parent country. Targeting markets abroad is of course a type of expansion that is relevant for international HRM. For a company to seek opportunities elsewhere in order to increase revenues becomes relevant when the home country market is saturated implying no further growth can be expected from that market. Competitors that compete with similar products targeting the same customers might also be a reason to look for chances abroad.

Ad 2 Cost advantages
Producing in western countries is often expensive when production requires labor. In order to reduce costs, production can be relocated to a country with lower wages. The company will sustain its focus on its existing customers in the company's home country but can offer these customers a more competitive price. Lower labor costs are the main reason for converting production to overseas locations. Additional possible benefits are the avoidance of labor union interference and increased efficiency of logistics. Logistics are needed to transport raw materials to a manufacturing site. When the raw material of a product is produced in for example Cambodia, it of course makes sense to move the entire manufacturing process to Cambodia. Relocating production abroad is called outsourcing. The type of work being outsourced by companies has changed over time. Three waves can be distinguished (Brewster, et al., 2013):

Home country

Outsourcing

1 low skilled labor: sowing t-shirts and putting together mobile phones are examples of outsourcing low skilled labor abroad
2 medium skilled labor: outsourcing concerns customer service handling customer complaints by phone
3 high skilled labor: employees abroad develop for example software for the online payment of web shops

The above-mentioned sequence in types of work being outsourced does not rule out the outsourcing of low skilled labor. For some companies this is still a reality, even if they hire higher educated employees from countries abroad at the same time. A new wave in outsourcing therefore does not simply replace the previous wave but adds a new type of outsourced labor. China used to be the country many companies would outsource its low-skill required production to. With recently soaring labor costs in China, companies now turn their focus to cheaper alternatives like Myanmar, Vietnam and Cambodia. The Chinese government finds it highly undesirable that Chinese companies follow this example as it impedes employment opportunities. It therefore urges Chinese companies to simply move production to cheaper parts of China (Sirkin, 2016).
Due to easy communication through the internet, companies are more likely to broaden their scope when looking for a foreign partner for a specific assignment, such as a marketing campaign. The company itself requires a fairly small department to take care of marketing campaigns and then hires an external company to design the new campaign. A US-based company can then

hire an Indian company in drafting a new marketing campaign targeting US customers. In doing so the US-based company might not just have lower costs in mind but additionally seeks to be fueled by fresh ideas and new knowledge.

Ad 3 A foreign government favorable to companies
The majority of countries around the world obligate companies to pay taxes on the profits they make. For large companies the total amount of tax owed can add up to millions of euros a year. Choosing a country with a tax scheme favorable to companies is a way to save money. Governments are aware of the effect of low taxes and have known in the past to make tax deals with big companies to force them to relocate their business. In the eighties, Apple moved its headquarters to Ireland because of a tax cut on profit promised by the Irish government. Unfortunately for Apple, the European Union decided in 2016 this deal was illegal, forcing Apple to pay 13 billion Euro in outstanding tax (Foo Yun, 2016), which were indeed paid to Ireland in full in September of 2018 (Toplensky, 2018). For similar reasons the Dutch government was inspected regarding tax deals with Starbucks, Ikea and Proctor & Gamble (Khan, 2017). Besides tax cuts, companies might favor a certain country because of subsidies provided by the local government.

A recent trend observed in international companies is to move activities not halfway across the globe but to countries that do offer the desired advantages like lower costs, and bear more resemblance to the home country of the company. Cultural clashes and language issues are less likely this way.

Internal motives

Besides the reasons to go international as described above, additional motives can be distinguished related to the companies involved (Ebbers, 2016). These can be seen as reasons to go international but are not based on specific opportunities abroad but on the company's situation in its home country. Ebbers details the following internal motives for companies to go abroad: **Internal motives**

- surplus of financial means
- reducing risks
- creating a global image

Surplus of financial means
Large, successful companies often have money available. Saving the money will only accumulate to a small amount in interest. By investing, the company expects to make more money and, depending on local legislation, might avoid paying tax on their possessions at the same time. When attractive investment opportunities are lacking in its home country, the company will search for opportunities abroad. The investment might involve buying other, smaller companies or acquiring partial ownership in another company by becoming a partner or buying shares.

Reducing risks
If the economy in the European Union is suffering while at the same time the economy in Southeast Asia is booming, companies that have invested in both the EU as well in Southeast Asia will not be affected as badly as when they would have limited their business to the EU. Investing in businesses, through partnerships, takeovers or shares, in other countries or even continents other than your own, will reduce the risks associated with an ailing economy.

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Creating a global image
A tax consultancy company specialized in international taxes will ensure a more credible image if it has offices worldwide and clients in various countries. This alone would be reason enough for the company to look for opportunities abroad.

1.4 Entry strategies

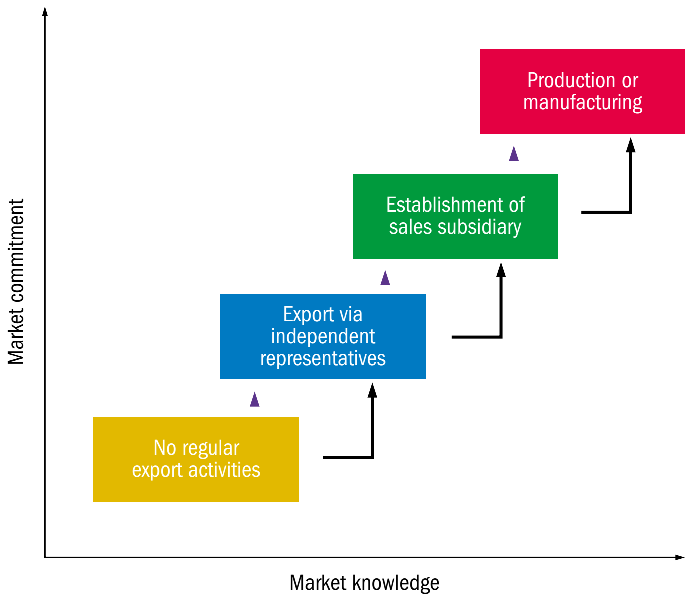
Turning a local company into a global company involves several consecutive steps which can be observed with almost every company that has taken the path to go international.
Swedish scholars from the Uppsala University were the first to observe this pattern that turned out to be universal, although exceptions exist. Based on their observations, the Swedish scholars defined the so-called Uppsala model as shown in figure 1.4 (Johanson & Vahlne, 1977 in Ebbers, 2016). It depicts the successive steps a company takes when going abroad. The reasoning behind the model is that the international activities the company develops produce knowledge about the local market that is then used to accommodate future steps. The more steps are taken, the more involved the company becomes in this newly explored market, implying it is willing to accept an increased financial risk with every step it takes. This level of involvement and connected financial risk is referred to by the Swedish scientists as market commitment. Market knowledge and market commitment are the models two axes.

Uppsala model

Market commitment

Market knowledge

FIGURE 1.4 The Uppsala model



Source: Johanson & Vahlne, 1977

As the model shows, a company will go abroad when it starts to export. Often this involves finding a local agent abroad who will ensure reselling the product to, for example, supermarkets or store chains within the targeted country.
If this first step turns out to be successful and the company finds the market knowledge it has assembled to be sufficient, the company will offer local companies licenses the opportunity to produce and/or sell its products: for example an ice cream company offering its brand and recipe of its ice cream to selected companies abroad. The companies abroad will produce and sell the ice cream, under its original brand name, to local consumers. As they benefit from the brand being familiar with consumers, they pay a fee for the license. A franchise agreement resembles a license but is reserved for products directly sold to consumers. And because of its direct contact with customers a franchise agreement includes requirements additional to that of a license regarding the look and feel of the location from which the customer is to be served, supply procurement being bound to selected vendors and marketing activities following prescribed rules. Franchise agreements therefore lead to a stronger bond between the entrepreneur and the mother company, compared to a license. Many fast food chains, like McDonalds, offer franchise agreements. Some of its restaurants are owned by the McDonald's company, but most of them are franchises. The entrepreneur holding a franchise agreement has to pay a certain amount of money, possibly a percentage of its profit, to the mother company in return for the product and brand.

Licenses

Franchise agreement

The third step of the Uppsala model is establishing an alliance. The alliance will not replace the original companies but implies they will work together so they both benefit. Alliances between car companies have shown that both companies use each other's technological knowledge and are granted easy access to each other's markets through the existing dealership networks.

Alliance

With a joint venture, companies will establish a new company. Both original companies remain unchanged except for a third company to be added of which both companies share ownership.
In the second to last step of the Uppsala model for entry strategies, the original companies cease to exist as they subsumed in a new erected company through a merger. According to businessdictionary.com a merger can be defined as a '*voluntary amalgamation of two firms on roughly equal terms into one new legal entity*'. The owners of the companies that are to be merged might do so by exchanging shares to have both owners own shares in both companies. A merger can be of a horizontal nature as it includes two companies that share a similar core business. By merging, costs can be cut due to scale advantages. A merger could also be vertical by including companies within the same product chain. It could be either a former customer or a former supplier of the company that is inviting it to merge. Vertical mergers are often initiated to achieve cost reductions whereas horizontal mergers aim to both cut costs and increase market share. Another reason for a merger, either horizontal or vertical is to be better equipped to tackle the government regulations they are faced with.
The final step of the Uppsala model is to expand business further by investing in international start-ups that are part of the company's structure and positioned as an independent, remotely related new company. The less re-

Joint venture

Merger

lated to its original founder, the more independently this new business can operate.

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What can be gathered from the Uppsala model is that a company changes when going through the steps of internationalization. It is no surprise that with every step changes need to be made when it comes to managing the new additions to the company and HR activities and policies as well. Regarding joint ventures, a change of organizational structure and a repositioning of (top) managers will be additional to the changes to be made.

Acquisition

Additional to the steps of the Uppsala model, a company can achieve international presence through an acquisition, which is also referred to as a take-over. In an international acquisition, a company will then buy either a competitor or a supplier who is located abroad. International acquisitions are linked to the previously mentioned reasons for a company to go abroad, being market-orientation, cost advantages and a foreign government favorable to companies. Some companies speed through the steps of internationalization as acquisition might be a government's precondition in order to be allowed to operate in a certain country. Changes made to organizational structure, management of operations and HR policies then need to be implemented rapidly which will have extensive effects on the rest of the company. The largest acquisition or take-over in business history up till now has been Vodafone buying the German telephone and internet company Mannesman for 180.95 billion dollars in 2000 (The Wall Street Journal, Febr 4. 2000). Other major international acquisitions include Royal Dutch Shell buying BG group for 81.5 billion dollars in 2015 and the Royal Bank of Scotland Group buying ABN Amro in 2007 for nearly 96 billion dollars (Tash, 2017).

As the Uppsala model is based on observations stemming from the seventies, the model might have lost its relevance for todays' businesses. But some recent publications (like Dowling et al, 2017) claim the model is still largely in sync with current practices although newly founded businesses might skip some of the steps. Companies like AirBnB and Uber seem to have done just that. The cause of leapfrogging might lay in the impalpable nature of the product. No need for relocating production as the internet supports direct contact with customers wherever they are located. Similar internationalization approaches apply to service-based firms, with somewhat old school services such as legal firms. As exporting is not a possible first step to internationalization, these companies start their venture abroad one or more steps higher up the Uppsala model.

Multinational and transnational

Multinational

Traditionally, companies going international were well established in their home countries before taking the leap abroad, especially if market reasons were the cause of the desire to expand. These vast companies will have thousands of employees including a large head office staffed with hundreds of people, often located in the city it was founded. A large company with offices or factories in various countries abroad but managed from its headquarters, is considered a multinational. These are commonly referred to as Multi National Enterprises (MNEs) or Multi National Corporations (MNCs) in American publications. Due to their size and presence in many countries MNEs are often considered examples of truly global companies implying major influence from abroad. Research has shown though that MNEs are influenced to a large extent by the country where their headquarters are located, because they have to adhere to what is considered socially appropriate, the rules and regulations in that specific country. This means that decision-making by MNE management is not simply a matter of rational considerations.

Companies that are as large as multinationals and have their decision-making not restricted to headquarters but delegated to several locations worldwide, are considered transnational companies. More and more multinationals become transnationals because customer markets are no longer restricted to western countries, as they have been for decades. Along with the rise of BRIC countries-related companies, Asian customer spending has increased rapidly over the past 15 years. More competitors target Asian markets, causing strong competition regarding specific products. This then prompts companies to make changes to their products to align them with the tastes and preferences of Asian companies, ensuring it is *their* product that is wanted by Asian consumers. Transnational companies are capable of easily adapting their products to accommodate local taste. The management of the company's Asian locations is located in Asia and is therefore well informed about the specifics of Asian likes and dislikes. In addition, headquarters management allows them to take far-reaching decisions regarding product changes, marketing campaigns, sale channels and price setting. The transnational company has a structure with locally based supportive staff departments such as for marketing and product development. At several locations around the world, similar departments can be found at all parts of the same company. This repetition in structural elements at local level leads to complexity in both structure and overall management.

Transnational companies

1.5 Capital

Taking a leap abroad requires investments when the steps dictated by the Uppsala model are to be followed. Even the first step, exporting abroad, requires investment because production needs to be increased, shipping costs need to be paid ahead of receiving the revenues of its sell and an export manager abroad will require being paid. The majority of profit organizations in the Netherlands will find capital to invest by applying for a bank loan. The loan has no direct consequences for how the business is managed because the bank will never be actively involved. But one could argue that by getting a loan from a bank, the bank acquires partial ownership. If the company is no longer able to keep up with the regular loan payments, the bank will claim these. This results in the company being forced to sell its assets, leading to bankruptcy.
In other parts of the world, for example in the United States, private investors are more common and are likely to become partner of a company. The extent to which the partner is involved in the business may vary. It can share the running of the company and decision-making with the original owner or it acts as a silent partner. The latter implies that the partner simply invested in the company but lets the running and decision-making up to the original owner. In whatever configuration chosen, the partner will run a financial risk because the company can go bankrupt. If the company does well, a profit share can be expected, which is decided upon beforehand. As partners personally know the owner, partners might be more lenient when profit payout needs to be postponed in case of disappointing results.

Partner

Partners are sometimes referred to as associates but that term can cause confusion because it has many meanings. It can be used for a co-worker as well as a partner with no financial interest in the company at all.

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Crowdfunding

Yielding capital through crowdfunding becomes more and more prevalent as an alternative way to attract capital. It implies receiving a loan from multiple individual investors. The money lent has to be paid added with interest. No professional investors, such as banks or investment funds, are involved in crowdfunding, which makes investing an option for ordinary civilians and restrictions caused by investment regulations of professional investors are limited. All the options to yield capital mentioned are considered debt financing because attracting capital leads to debt.

Debt financing

For large organizations, an alternative way to raise capital is to become a corporation by registration at the stock exchange and issue stocks, which are also called shares. This is considered to be equity financing. Some corporations add the suffix Inc. to the name of the company to reflect its status as a corporation, like Wonder Computers, Inc. but most companies such as Apple, Akzo Nobel, Shell and McDonalds do not. By buying shares, an individual or investment company become shareholders of the company and through that they own a part of the company. The majority of large companies operating internationally are corporations.

Corporation
Equity financing

1.6 Corporation

Corporation

A company that operates on a for-profit basis and is listed at the stock exchange market is called a corporation. Stock exchange markets can be considered digital markets with trading in shares and additional financial products, taking place over the internet. The physical location of stock exchanges can be found in all major cities around the world, including New York and Tokyo and additionally in smaller cities such as Amsterdam. Corporations are registered at one of these stock exchanges and theses then facilitate buying and selling the company's shares.

Shareholders

Shares, also called stocks, are offered at the exchange market by a corporation for an amount that is based on the value of the company. The share value is determined by the company that will have the accountant, operating as an independent authority, perform a yearly audit of the financial reporting. The value of the shares do not have to represent the actual value of the company's assets such as buildings and inventory, this can be higher if future financial success is expected. Once sold to shareholders, these shareholders can offer their shares via the stock exchanges to be sold to new shareholders. The shares on offer can increase in value if the prognosis of the company is positive, that is if high profits are expected in the near future. The price of stocks can also plummet if forecasts turn sour. As the article on the next page shows, the shares from Royal Mail, the British mail company, have lost value because there is less mail to be delivered.
Governments have legislation in place that defines the terms for companies to access the stock exchange. In case of major events, such as the 9/11 terrorist attack causing the collapse of the Twin Towers in New York, USA, the stock exchange is allowed to pause trading. This prevents what is considered an overheated stock exchange with many people trying to sell their shares at the same time, leading to sharp declines in value. Other events such as the election of Donald Trump as President of the USA can increase

the demand for shares and therefore increase the value of shares as people have faith that Trump will be good for the country's businesses.

FINANCIAL TIMES, JANUARY 19. 2017

Royal Mail shares hit after sharp drop in letter volumes

Brexit uncertainty prompts slump in junk mail sent by businesses

Shares in Royal Mail dropped more than 5 per cent after the group reported a drop in letters delivered before the festive period as business uncertainty in the UK hit junk mailings.
Rising parcel numbers failed to make up for the chronic decline in paper-based correspondence at the postal service's core British business, pushing the division's revenue down 2 per cent in the nine months ending on Christmas Day. But this was offset by a buoyant performance at Royal Mail's European logistics arm, which is among the continent's largest parcel providers.

Overall group sales were flat on an underlying basis in the three quarters, thanks to a 9 per cent jump in revenues at the smaller GLS unit. While the company said trading was in line with its expectations, shares slumped 5.5 per cent in morning trading on Thursday to 425.4p.

As it grapples with a structural downturn in the letter post that was once its mainstay, Royal Mail is up against fierce competition in parcels delivery, a market that is growing due to the boom in ecommerce.
Business concerns in the run-up to and aftermath of the Brexit referendum were blamed by the company for a sharp drop in marketing mail in the first half of the company's financial year. It said the revenue trend for its main advertising products was broadly similar in the latest quarter. Addressed letter volumes fell 6 per cent in the nine-month period, while total revenue from letters was down 5 per cent.
'We are seeing the impact of overall business uncertainty in the UK on letter volumes, in particular advertising and business letters,' the company said.
(...)

Structure

Board of directors

Corporations are requested by law in the majority of countries to be managed by a board of directors. This group of approximately 1 to 7 people is elected by the shareholders during a shareholders meeting. The board of directors is expected to look after the interests of the shareholders but does not manage the company directly. The board's focus on shareholders' interests explains why companies that are registered at the stock exchange show an intense focus on making a profit year after year. Although the board does not manage the company on a day to day basis it does have final decision-making authority within the company by setting the company's mission and vision and decide on mergers, acquisitions, subsidiaries and the like. Additionally, the board of directors is entitled to decide to issue more shares and determine the amount of dividend that is paid to shareholders.

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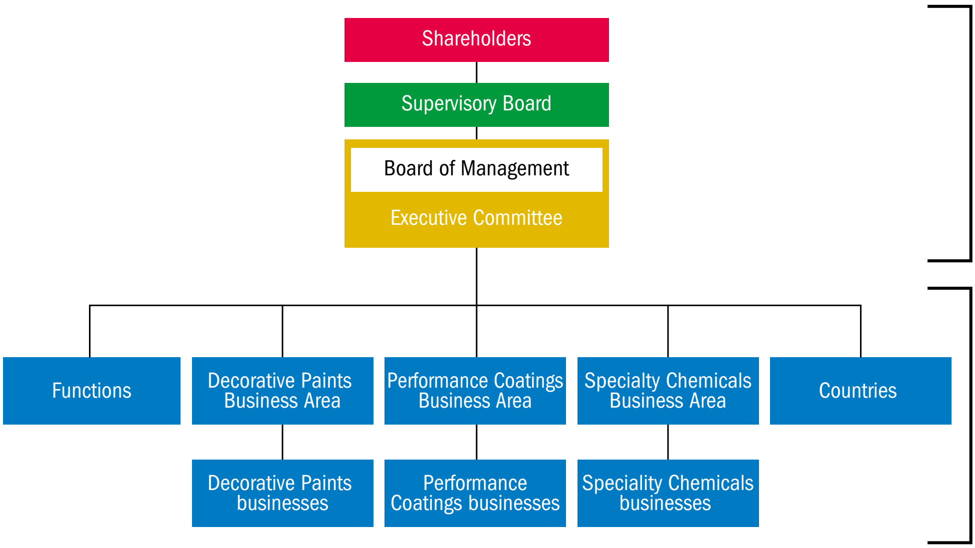
By installing committees, the board of directors ensures the company is under constant scrutiny regarding decisions made. Additionally, committees advise the board on all relevant issues. These committees will constantly report, advise and audit the company and are expected to operate independently from the board of directors. The committees might have specific areas of expertise, such as finance, or have a broad, more general focus. In case of the latter the committee is referred to as advisory committee. This committee offers the board guidance on issues such as overall organizational policy, investments, cost cutting and mergers. Considering their direct access to the board, their potential impact on the success or failure of the company is huge.

FIGURE 1.5 Organizational structure of Akzo Nobel



Source: Akzo Nobel, May 2018

Managing director

Chief Executive Officer (CEO)

To run the company on a daily basis the board will appoint a managing director. For US-based companies this position is referred to as Chief Executive Officer (CEO). Most corporations have an additional Chief Financial Officer (CFO) who is in charge of finances and reports to the CEO. As can be concluded from the organizational chart of Akzo Nobel as pictured in figure 1.5, the executive committee consists of several managers supporting the CEO. The field ‘Countries’ in the organizational graph shows that the international activities of Akzo Nobel are organized per country.

Dividend

Growth shares

Each year, the board of directors will decide whether to pay dividend to shareholders or not and if so, how much. Dividend is considered profit per share and forms one of the reasons to becoming a shareholder. The amount of dividend paid is supposed to be related to the profit of the company. If the company is not making any profit, no dividend will be disbursed. Some corporations do not pay dividend because they consider their shares growth shares. These shares in possession of a shareholder are expected

to increase significantly in value due to the financial success of the company. By selling them, as with any other type of share, the shareholder will receive its value in cash. The value of a share can decline because of disappointing financial results or just by a hint of declining results. Additionally, the value can be affected in a negative direction if the corporation decides to issue more shares to increase capital influx. Shares of that specific company then become less scarce leading to a decline in value.
Apart from its structure with a board of directors, shareholders and a CEO having the possibility to raise capital through shares, a corporation has three additional characteristics that distinguishes itself from other types of companies:

- legal entity
- limited liability
- continuity of existence

Legal entity
A corporation is considered a legal entity by itself and therefore can buy, sell own, enter in to a contract or sue people or companies. The corporation can also be sued by people or other companies. Companies that are not corporations cannot be sued, but instead the owners can be taken to court.

Limited liability
When sued, the liability for the shareholders is limited because, in case of a corporation, lawsuits cannot claim more than the money invested by the shareholders. Therefore, personal possessions of shareholders are not at stake. Companies not being corporations have full liability meaning that the owner can be obligated to pay damages in a court case for which he has to turn to personal possessions like his house.

Continuity of existence
The company will not cease to exist when shareholders die, unlike companies with just one single owner. Ownership can be transferred via sale, as part of an inheritance or as a gift.

1.7 Management

Companies in general, and not just corporations, are held accountable by those that have invested to pay back loans or offer a form of pay related to profit. It is in the investors' interest that the company is successful. Investors, as well as customers and employees, can be considered stakeholders. **Stakeholders** Their definition of the company's success varies with their interests. Customers might demand products that are more environmentally friendly; employees request safe working conditions and investors want a high profit return. They have or will voice their interests via various means such as shareholders meetings, works council meetings or simply by the stipulations as included in contracts for loans. With those interests in mind, management will decide on the goals for the company and how to achieve those goals, as they are responsible for steering the company in the right direction and ensure the company keeps heading that way. The managers themselves can be considered stakeholders just like any of the other stakeholders mentioned. By meeting the stakeholders interests stakeholders will be pleased and increase the company's value for future investors and future employees.

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Customary to companies not being corporations, the following terms to distinguish between positions are in use:
- senior management or top management
- middle management
- junior management

Management team

Senior management or top management refers to those highest in charge. There could be more than one senior manager. This group of senior managers is called the company's management team. Junior management is reserved for a manager who has just joined the ranks of management. Middle management is, as the name implies, active at the level between junior and senior management.

Governance

The term governance is used for the way in which management provides accountability to its stakeholders. Related to this is the system of rules, practices and processes by which a company is steered, controlled and monitored. One could argue governance sets the boundaries for management behavior. Although all companies have a variety of stakeholders, governance for most corporations is attuned to shareholders or other financiers of the company.
Corporations have specific rules to adhere to related to governance through national level legislation. In most cases corporations are obligated to organize a meeting with shareholders where they will be informed by the board of directors of the results of the company and vote on issues brought forward by the board of directors or by shareholders. In general, shareholders expect the company to make a profit as they are eager to receive dividend and would like to have their share's value rise. Their voting behavior is therefore guided by the prospect of increased profitability.

Up until June of 2017, PPG Industries made several attempts to take over Akzo Nobel, as can be concluded from the article below. The way to achieve this was to buy shares, from other shareholders. If one owner (PPG Industries) is able to acquire a certain percentage of shares it will gain voting power during the shareholders meeting. When shareholders are then presented with a takeover bid it is more likely to achieve a majority of stakeholders voting in favor.

www.fool.com

Is a Hostile Takeover the Only Path Left for PPG Industries and Akzo Nobel?

It would be a difficult strategy to deploy, but not impossible to achieve
by Rich Duprey

PPG Industries has given up its pursuit of Dutch rival Akzo Nobel and said it won't make a hostile takeover bid. After being rebuffed three times by the coatings specialist and having a judge toss out a lawsuit brought by a hedge fund to force the issue, PPG will walk away and lick its wounds. But as someone once said, never say never, so don't be surprised if you see it re-visiting the issue later this year.

A wave of consolidation
There's a cooling-off period under Dutch law that PPG has to abide by before it can mount another attempt, and Akzo Nobel has already said it will explore spinning off its specialty chemicals business to mollify investors and return value to shareholders. Yet after that deadline has expired and with Akzo possibly a newly slimmed-down company, PPG's taking a fourth bite at the apple – and going hostile if necessary – might not be so fanciful.
The coatings business is consolidating, as seen with Sherwin-Williams and its recently finalized acquisition of Valspar, which has made it the biggest paint and coatings company, with combined revenue of more than $16 billion. PPG bought Mexican paint leader Comex two years ago, after Sherwin-Williams failed to gain approval from antitrust regulators south of the border, while Akzo bought BASF's industrial coatings business this past December. Yet Akzo Nobel's operations were seen as a good complement to PPG Industries' own, and after being turned down time and again, it's quite possible the company will try again.(…)

June 26. 2017

1.8 International business approaches

The management of a company that opens a location abroad has a choice in how to run its business with respect to the new international addition. Four main approaches can be distinguished often referred to by its abbreviation EPRG. These are:
- ethnocentric approach
- polycentric approach
- regiocentric approach
- geocentric approach

These four approaches represent the way subsidiaries of the company abroad are managed and staffed and were originally identified by Perlmutter in 1969 (Dowling et al, 2017). With identifying the company's stand regarding its subsidiaries it at the same time clarifies the role of headquarters in relation to the company's international additions. According to Perlmutter the approaches are derived from the views held by the executives of international firms and determine to a large extent the company's decisions.

Ethnocentric approach
Following the ethnocentric approach in international business implies that headquarters are considered the core of the company as all major management decisions are made at headquarters. All types of policies the company holds from marketing to HR, are drafted from the headquarters perspective and by headquarters staff. Products that are to target foreign markets are adjusted only to comply with local taste if deemed absolutely necessary to be successful abroad.

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Internal labor market

Parent-country nationals

External labor market

Key positions within the company's domestic market and at subsidiaries abroad are staffed via the internal labor market by recruiting people from headquarters. These employees are generally referred to as parent-country nationals (PCN) indicating the country where the company's headquarters is located as parent country of the company. Because these employees remain employed by the parent company when sent abroad and they will be working abroad for a limited time period, they are considered expatriates. To guarantee adequate numbers of parent-country nationals the company must of course recruit from the external labor market as even the most successful parent-country nationals will leave a company at some point in their careers. Targeting the external labor market implies that all people interested in the position at hand can apply. It brings 'new blood' to the company, because people will have work experience that is different from those that are already employed and bring in additional aspects such as diverse cultural and educational backgrounds. Companies following the ethnocentric approach will only target the external labor market to fill lower placed positions. Once a new recruit has joined the company he is expected to change positions frequently through promotions in order to gain company-specific knowledge to eventually fill management vacancies.

Perlmutter (1969) found that a company follows the ethnocentric approach if its managers hold the view that headquarters are the company's core. Within an international company this might occur in case the executives have little foreign experience themselves assuming that their management practices and their organizational and national culture will be applicable worldwide (Dowling et al., 2017). The lack of international experience and therefore preconceived notions of the universal application of that what works at headquarters might have made them ignorant of disparities between countries in culture, legislation and markets. At the same time it fuels a need to control because that what is distant seems less controllable. The views related to the ethnocentric approach could be fueled by the product line the company carries that seem to fit all foreign markets without any adjustments needed. This could be the case for worldwide bestsellers such as Apple's IPhone. If no change is needed in associated functions of the company, like in its marketing of the IPhone, the company has no reason to exchange the ethnocentric approach for an alternative approach.

Disadvantages of the ethnocentric approach regarding staffing are:
- high costs of parent-country nationals as described in the chapter of this book on reward
- a possible failure of the manager to adapt to the host country in terms of acceptable management behavior, possibly harming the company's interest
- limited promotion opportunities for locals as the management positions of the subsidiary and at headquarters are off limits for them

Polycentric approach

Host-country nationals

Opposite to the ethnocentric approach is the polycentric approach. The company treats each subsidiary or branch as a distinct entity and therefore allows decision-making autonomy. Subsidiaries are managed by host-country nationals (HCNs), meaning locally hired managers, and they are in charge of decision regarding the subsidiary when it comes to products, markets, price setting, HR policies and all other management areas. With the freedom to deviate from headquarters come the costs that accompany those decisions. Product changes make mass production less likely and therefore lead to increased costs. Marketing campaigns specifically targeting a country or even a unique customers' group within that country adds additional costs. This shows that the polycentric approach is only opted for when differences between the home and host country are extensive and differentiating the company's products or markets targeted is considered cost effective. Extensive international experience of headquarter management will of course foster such a choice and make the decision for the polycentric approach over the ethnocentric approach more likely.

Promotion of parent-country nationals to headquarters occurs seldom and is not strongly promoted by headquarters because those positions remain restricted for home-country nationals. Considering the example of the German company Carl Zeiss Meditec, a polycentric approach would imply that for their offices in the Netherlands, Dutch people would be hired to fill their management positions, but they will never be recruited for positions in Germany. The host country in this example is the Netherlands whereas Germany is considered to be the parent country and with that the home country of Carl Zeiss. The organizational culture in the Dutch office would be that matching the Dutch culture and products from this location would focus on Dutch customers. Employing host-country nationals as done within the polycentric approach has multiple benefits:

- extensive in-depth knowledge of the local market is potentially available because the HCN has called the host country 'home' his entire life or at least a large part of it
- no language barriers will exist in running the day-to-day business at the subsidiary between management and employees (which could turn out to be the case if a PCN would have filled the position)
- local governments might be more favorable towards the company as employment is offered to an inhabitant of the country
- long-term retention of the subsidiary's management is more likely because their time is not by definition limited as is the case when an expatriate is sent on an overseas mission
- less resistance can be expected from local employees of the subsidiary that could have been the case if a highly paid expatriate had filled the position
- less money and time spent before the HCNs become productive. Language training, cultural awareness training and relocating, as is the case with most expatriates prior to their transfer, is not needed

Hiring parent-country nationals instead of home-country nationals does have disadvantages as well, as Dowling et al. (2017) pointed out. The PCN might have a hard time getting his message across to headquarters due to language and cultural barriers. Communication from headquarters to the subsidiary might miss target for similar reasons. Both the PCN's and HCN's opportunities for promotion will be limited because overseas assignments are not an option within the polycentric approach.

Regiocentric approach

As the name implies this approach has the region as its focal point, like Europe, North America or South-East Asia. The approach is appropriate if there is little dispersion between countries within one region but disparity is extensive when regions are compared. Regional management have similar freedom in decision-making as with the polycentric approach only in this case it is not restricted to the country but by regional boundaries. Management positions are staffed by candidates employed with the company at one of the subsidiaries of that specific region. A manager located in Thailand could be offered a position in Malaysia but not in Germany and vice versa. With this staffing approach, country – or better yet – regional specific knowledge is valued. Compared to the polycentric approach its HR policy towards staffing offers more opportunities to recruit the right people.

Geocentric approach
The fourth and last international business approach is called the geocentric approach. This approach acknowledges differences between regions, countries and within countries offering more decisional freedom to local management than any of the other approaches. When it comes to staffing management positions, it does not focus on the location the candidate originates from (either home country or abroad) but solely on ability. The latter implies the right candidate for the right job in terms of knowledge and skills no matter his nationality or origin. The advantages are obvious because international employment opportunities for all managers are equal leading to a more balanced pool of managers without country of origin as a dividing line. Costs in deploying managers overseas might be limited because international assignments are generally more common for all managers involved leading to lower levels of compensation. At the same time, having more managers being sent abroad will increase costs of relocation, language training etcetera. An advantage that is certainly a plus for the geocentric approach is a shared, common view that is developed and shared by a larger group of managers than with any of the other approaches. This in turn might reduce the likeliness of conflicting views on the future of the company's international operation.
Earlier in this chapter, two organizational types were distinguished being the multinational and the transnational organization. With headquarters as the focal point of a multinational, the ethnocentric, polycentric and regiocentric approaches will make a good match. The geocentric approach is more likely to fit a transnational organization although none of the approaches are purely restricted to a certain organizational type. According to Dowling et al. (2017) it is even possible to have two approaches within one company such as a regiocentric approach to subsidiaries that have a long history within the company and an ethnocentric approach to those recently established. Soon after these new additions operate as headquarters intended, these can also be regarded from a regiocentric approach by substituting the parent-country national by a host-country national.
It is likely that the international business approach or approaches a company has opted for are not to be mentioned literally in the company's HR policy. Companies might especially like to avoid the term ethnocentric as it could be interpreted by a layman at international HR as race-related. When interested in a certain company it is helpful to determine its international business approach in order to learn how it fills management positions and how much decision-making freedom is granted to foreign locations.

Regarding parent-country nationals and host-country nationals there is a third type of employee to be recruited when operating in an international context. A company located in Switzerland has opened a subsidiary in Milan, Italy and decides to deploy the local manager from their subsidiary in Poland to lead the new Italian subsidiary. Three countries are therefore involved explaining the term of Third-Country National (TCN) to indicate the Poland national. Recruiting, in this case a third-country national, from a country within Europe indicates the regiocentric business approach. The terms PCN, HCN and TCN are widely used within the field of international HRM and indicative of the relevance attributed by company's management to an employee's nationality when overseas positions are to be filled.

Third-Country National

1.9 Expatriates

Parent-country nationals and third-country nationals have in common that their company sends them to work for a limited number of years at a company's location abroad in a management position. During that time and afterwards they remain employed with the same company. Meeting these characteristics considers both PCNs and TCNs to be expatriates although within most companies the term expatriate is restricted to parent-country nationals. Expatriate is a fairly common term that can be found in national legislation and HR publications. It stems from a Latin combination of the words 'ex', meaning out of and 'patria' which stands for country or fatherland. Assignments generally last up till five years and as high costs are involved in sending employees overseas, assignments are often restricted to key management positions abroad, either at subsidiaries, divisions or joint ventures. This makes expatriates to be generally a highly educated, well paid group of employees. Because of the extended stay abroad the spouse and children, if any, often accompany the expatriate on his adventure abroad.

Expatriates

Because the expatriate is to be sent by the company he is employed with, it implies that the company resorts to the internal labor market to fill the position at hand. Historic data shows that this is indeed the case as in only 8 per cent the company had turned to the external labor market by recruiting candidates from outside the company (Global Relocation Trends Survey, 2010 in Dowling et al. 2017).

Work visa

A barrier to deploying an expatriate is the requirement of a work visa. Third-country nationals do not need a visa when they originate from an EU country and are deployed in another EU country but for other countries a visa is required for both TCNs and PCNs. A visa is granted when the company and the employee complies with the visa requirements of the host country. A common requirement is that the company sending the PCN or TCN needs to prove that no local managers could fill the position at hand. In practice this means, as a minimum, the position was advertised for several months up to a year before a PCN or TCN can be appointed. Specific requirements such as knowledge-specific to the company or the company's industry (for example on oil welling or nanotechnology) can also allow foreign employees to be granted a visa. With the spouse and children accompanying the expatriate, the company will apply for a visa for them as well. Some countries have restrictions in place regarding what the partner of the expatriate is allowed to undertake in terms of employment and marital status. Most countries require the couple to be married and some limit employment to unpaid volunteer work.

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Expatriates in the Netherlands
According to the Dutch Center of Statistics, in 2015 the Netherlands was home to a total of 57,000 expats and numbers have gone up year by year in the past ten years. Most of them have not travelled far when relocated; the majority of expats come from Germany (7,350) followed by the United Kingdom. About half of all expats stay in the Netherlands for up to five years. The other half extends their stay beyond that. Most expatriates work at the 'Zuidas' in Amsterdam where many companies have located their headquarters. Large technology companies like ASML and Philips, international institutes and embassies in cities beside Amsterdam, are also employers to expatriates.
Asian employees, when given a choice, opted for the Netherlands as the air pollution in the Netherlands is low compared to major cities in Asia and there are no food scandals such as baby milk powder in China. Additionally, travelling around Europe from the Netherlands is fairly easy, which is another benefit of living in the Netherlands, Asian expatriates reported.

(NRC, August 21. 2015)

Deciding to accept an expatriate assignment
For the managers, the main reason to be open to an expatriate assignment is the international experience they hope to gain and the contribution that it is thought to have in enhancing their career (Brewster et al., 2013). Especially for companies with a strong international orientation, acquiring international experience is likely to be awarded on return by being promoted. Additionally, research by Van der Velde et al. (2016) has shown that people possessing well developed language abilities, cultural flexibility and personality traits such as open mindedness and emotional stability are more likely to accept a mission abroad. Previous experiences abroad increases this likelihood. Consecutive assignments abroad are indeed common for many expatriates.
As mentioned, the majority of managers that are given the chance to take on an expatriate assignment have spouses. The typical expatriate can be described as a middle aged white male from a western country, taking his wife and two children along on his expatriate assignment. The spouse can be a man but as the majority of spouses of expatriate are women, we refer to the spouse as 'she' for the time being. A study by Van der Velde et al. (2016) shows that the willingness of the spouse to accompany the manager on his temporary move abroad is crucial for managers for accepting the expatriate assignment. The typical spouse willing to trail her partner considers her role as partner to her husband to be more significance than her own career. At the same time her partner, the expatriate, considers pursuing his career goals of high significance (Van der Velde et al., 2016). The willingness of the partner is also related to the location of the assignment (Dowling et al., 2017) as some are considered more attractive than others regarding opportunities for the spouse, a safe environment for the spouse and the children and adequate schools for the children.
Keeping in mind the spouse's interest is recommended for companies, as spouses play a major role in accepting the international assignment. Family concerns are mentioned by 38 per cent of the respondents in a survey

among potential expatriates turning down an assignment (Brookfield study, 2016). An additional 18 per cent said to forgo due to the partner's career. Uncertainty about reward counts for 16 per cent and 15 per cent feel the compensation is inadequate (Brookfield study, 2016).

Expatriates generally cannot choose their location. In just 4% of turned down assignments, the location was the main concern (Brookfield study, 2016). China is the most challenging location by far, according to the 70,000 respondents to the Brookfield study, although terrorism threatened countries make their own category of challenging locations. For the latter companies will offer extra financial compensation and a set of security means, like security staff escorting the expatriate on trips and protecting its residence.

Future developments

The future might bring a change to the profile of the typical expatriate when observing the following developments (Brewster et al., 2016; Dowling et al., 2017; Brookfield study, 2016; Debot, 2003):

- Continuous focus on reducing costs of foreign assignments.
- Parent-country nationals will no longer make up the majority of expatriates as third- country nationals become more common.
- More women are sent abroad as expatriates, with or without a trailing spouse.
- More dual-career couples: the spouse no longer trails along but wants to continue his or her career in the country one of them is sent to.
- More potential expatriates have gone through a divorce with a custody arrangement regarding the care of the children as a result. This arrangement might limit the expatriate to move his children abroad or binds the expatriate to remain in his home country and forgo of the international assignment.
- Aging parents are expected to become a more prevalent reason not to accept an assignment with governments relying more and more on the care of elderly by their children.
- The traditional responsibilities of trailing spouse finding accommodation, schools for the children and build a social life abroad, are becoming less and less challenging with the availability of internet as a nearly comprehensive source for information. Their role in preparing and facilitating the leap abroad becomes obsolete which might add to dissatisfaction of the spouse with the foreign assignment.

Dual-career couples form a true challenge for companies because there are two careers that have to be continued abroad. Offering a job to the spouse by the company who is sending the expatriate abroad might seem to be the most logical option but is expected to receive limited support by local employees and/or the expatriate and spouse involved. Some companies have come up with creative alternatives, such as offering spouses a position as an expatriate with another multinational, local job-hunting assistance and training opportunities intended to increase job chances upon return to the home country (Dowling et al., 2017). In case of a dual-career couple the trailing spouse is the husband, chances are the expatriate turns down the offer of the international assignment if no suitable solution is found for the husband to continue his career abroad (Dowling et al., 2017). Even if the company is willing to facilitate the spouse's employment, visa restrictions can turn out to be a barrier because local governments want to safeguard employment opportunities for host country nationals. Currently just 16% of expatriate spouses continue their career during an assignment abroad (Brookfield study, 2016).

Female expatriates are still a rare breed although their numbers have gone up from just 3 per cent in 1984 to 25 per cent in 2017 (Dowling et al., 2017). Research findings do not offer conclusive explanations but likely a combination might account for the low female presence as expatriates (Brewster et al., 2013; Dowling et al., 2017; BBC, 29 Sept 2016):

- Preconceived conception of those recruiting for expatriate positions that in some cultures men will refuse to report to an expatriate manager in case this happens to be a woman.
- Recruiters assume women are not interested in an international assignment as they are expected to be more concerned about securing a stable environment for their children and having a spouse not willing to move with them. Therefore they are not considered for an international position.
- Women do seem to put the family's interest first and are therefore less likely to be interested in an expatriate position as long as they have young children.
- Spouses of women with the potential to become expatriate, are less likely to trail their spouse due to disruption of their own careers (unless a solution is found regarding dual-career couples).

Glass border

This leads to a situation in some companies where men at a certain managerial level are actively offered international assignments and are expected to accept an international assignment and women are not considered. The 'glass ceiling', an expression often used to indicate the inability of women to be accepted to higher management positions for unclear reasons is in the international context accompanied with a 'glass border', according to Dowling et al. (2017). The glass signifying the border is present but hard to spot and if so, still hard to break. Dowling's research has pointed out that male counterparts are indeed less willing to accompany their wife abroad but if so, female expatriates perform equally well as men, even at positions in male dominated societies. A selection system that is formalized and actively advertises vacancies, is seen as most beneficiary for women to be selected for foreign assignments (Harris, 1999 in Brewster et al. 2013). Formalized refers to clear criteria for candidates to be considered for the assignment and selectors have received training on how to select.
Sending an expatriate is a costly solution to fill a position abroad as is explained in the chapter on renumeration. Especially due to the recent economic crisis many companies have re-evaluated their expatriate policy and as a result of that some companies will be more likely to hire locally instead of sending an expatriate, opt for a construction of commuting (during weekdays at the foreign location, weekends at home) or manage the foreign location using Skype, video conferencing and additional frequent flying. Still it is expected that expatriates will remain a common phenomenon for international companies. Their numbers are even expected to go up due to more globalized companies.

Summary

- Internationalization of a company indicates that a company expanded its business beyond its home country. Globalization means that a company and the company's environment are internationally orientated and affected by changes from abroad. The environment of companies becomes more globalized because of:
  - companies that have become global players
  - BRIC countries becoming future economic leaders
  - availability of the internet

- The two main economic models for capitalism are the Anglo Saxon model and the Rhineland model.

- According to Ebbers (2016) there are three internal motives for companies to extend their business abroad:
  - surplus of financial means
  - reducing risks
  - creating a global image

- Companies need capital to start and operate. Regular companies can do so by debt financing, corporations acquire capital through shares, called equity financing.

- A corporation has a specific organizational structure. Overseeing the company is the board of directors that appoints a Chief Executive of Operations, or CEO, to run the company on a daily basis. Three additional characteristics set corporations apart from ordinary companies:
  - legal entity
  - limited liability
  - continuity of existence

- A business opening a location abroad has a choice in how to run this foreign addition. Four different approaches are distinguished: ethnocentric, polycentric, regiocentric and geocentric.

- Depending on the approach chosen the company will staff management positions at foreign subsidiaries by:
  - Parent-Country National (PCN)
  - Host-Country National (HCN) or
  - Third-Country National (TCN)

- Both PCNs and TCNs can be considered expatriates. They are sent to work for the company abroad for a limited period of time, often bringing along their spouse and children.