HUMAN RESOURCE MANAGEMENT IN MULTINATIONAL RETAIL ENTERPRISES (MNREs)

Segment 2 — Approaches to IHRM: Strategies, Structures and Evolution Over Time

SEGMENT OBJECTIVES

1. Understand various approaches to organizing the IHRM practice (e.g., deployment of expatriates, local management and staffing, degree and execution of centralized control)
2. Link to specific countries and cultures, with specific focus on China
3. Understand HR implications of strategic decisions about how to execute international expansion (e.g., re-creating existing model offshore, customizing model to locale, franchising)
4. Explore natural “evolution” of HR practice over time and experience in host country – how IHRM practice must reflect and support this
5. Understand the movement from initial international expansion to true transnational status, including HRM implications

READINGS AND PREPARATION


PERIPHERALS (UNDER DEVELOPMENT)

- Video segments of IHRM executives discussing different approaches to structuring the HR function – link to corporate strategy, specific country requirements, stage of international expansion
- PowerPoint slides to support presentation

INSTRUCTOR NOTES

IHRM Organizational Challenges

- The focus here is on internal and organizational structure and roles for IHRM. These occur in a broader social and cultural
context, as discussed earlier, and these internal and external factors are highly interactive.

- The chart shown shows just some of the issues that must be addressed in establishing an effective IHRM practice and structure, combining both internal and external pressures and demands. Few of these are mutually exclusive. Rather they require simultaneous attention. *Instructor: Discuss some of the items shown, with a focus on how they impact organizational and structural decisions.*

- There is, however, a general “progression” of HR practice implementation steps that, despite differences among companies on the dimensions shown, does seem to occur with some frequency. It is by no means the same for all MNREs or other international firms.

- There are variations in speed and the particular approach selected. For example, some MNREs elect to do rapid international expansion through acquisition of an existing retailer in the host country, and more-or-less “adoption” of existing HR processes in place. However, even this approach does not fully address the need for control mechanisms, administrative and information management, and integration – to whatever extent desired – with the broader corporate structure.

- Briscoe, Schuler and Claus (2009), pp. 44-53, describe a series of typical steps for the process of internationalization of
companies. It is modeled on a framework proposed by Bartlett and Ghoshal in 1998. The sequence, which we must remember, has many variations, determined by the factors in the previously slide, among others, is nonetheless useful to provide a general overview. The headings provide both a typology of organizational and structural approaches, and can broadly be thought of as a progression. (Note: This is intended to be applicable to a range of business types – not just MNREs.)

### A Typical Sequence in the Internationalization Process

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Internationalization through export</td>
</tr>
<tr>
<td>2.</td>
<td>International division or global product division</td>
</tr>
<tr>
<td>3.</td>
<td>Multi-country/multi-domestic strategy</td>
</tr>
<tr>
<td>4.</td>
<td>Regionalization</td>
</tr>
<tr>
<td>5.</td>
<td>The “global” firm</td>
</tr>
<tr>
<td>6.</td>
<td>The “transnational” firm</td>
</tr>
<tr>
<td>7.</td>
<td>The “born-global” firm</td>
</tr>
<tr>
<td>8.</td>
<td>The globally integrated enterprise</td>
</tr>
</tbody>
</table>

- **Internationalization through export**: an early stage, often with minimal effect the organization itself. Very common in an increasingly globally-sourced environment
- **International division or global product division**: Generally occurs as firms expand their sales or sourcing, making them a more significant part of the organization’s functioning. This is the stage at which HR impacts become apparent, e.g., staffing the foreign division, becoming familiar with legal, tax and other requirements for operating in a different country, etc.
- **Multi-country/multi-domestic strategy**: Creation of self-sufficient subsidiaries in foreign countries, in essence, replicating the existing corporate design and operations. HR is looked to for shared services support (e.g., relocation, compensation, training) and there is increased demand for integration of corporate standards and
approaches to doing business, with clear implications for how reconcile these expectations with local cultural and related differences.

- Regionalization: A variation on the above strategy, and a means for avoiding proliferation of single-market subsidiaries or related organizations. Assumes that there is enough consistency across a region (culture, style, business practice, shared markets, etc.) to make this practical – an assumption that may ignore very real market-by-market variation.

- The “global” firm: Firms at this stage think of the entire world as a single market, with all aspects of sourcing, production, operations, etc. assigned to wherever the firm feels it can best do so. International boundaries become less and less important, particularly as transportation, communications, and financial markets become integrated – and nearly instantaneous – worldwide. HR challenges abound, as companies adopt global product and branding strategies, requiring new and creative ways to structure policies, procedures, structures, training, staffing, etc. to support this global enterprise and identity.

- The “transnational” organization: While similar to the global firm in its focus, the transnational firm seeks to combine both multinational operation and “local” knowledge and sensitivities. (One example is McDonald’s, which has
successfully transplanted its highly successful U.S. operations to countries around the world, while simultaneously developing local production of many items needed for its products, work with local farmers’ cooperatives, tailoring the menu to suit local dietary sensibilities, etc. Still, the brand is immediately recognizable around the world, and the highly structured operational processes – tried and true – are part of the expansion strategy. It may be that this will become the dominant strategic approach for many firms, but it requires an extraordinary degree of international sophistication and knowledge, not least among HR practitioners.

- The “born global” firm: Oviatt and McDougall (1994) proposed this term, that has become popular in common usage. These companies leapfrog many of the earlier steps, as they were established with the very idea of competing in a truly global marketplace. Certain technology firms (e.g., software, cellular phones, etc.) were truly either born global, or moved very quickly through the developmental stages noted above. Increasingly, fashion apparel retailers and similar retail enterprises are following this path and/or “skipping” some of the intermediate steps. Again, this poses significant challenges for the HR function.
- The globally integrated enterprise: This model is designed on the premise that
every aspect of an organization, from strategy to operations, is to be considered in service of providing value to clients – anywhere in the world. Thanks to technology, communications and other factors, this newly-conceived type of organization differs from the previous multinational models in that those typically separated strategic and management decisions (done globally) from subsidiaries (which operated more or less independently, serving local markets.) Globally integrated businesses tend to operate as a network, while transnational maintain a structure that retains a “corporate” center

- Note: there is no judgment implied here that one or another of these systems is “better” than the other. Rather, they reflect the progression of business needs, and these vary according to the nature of the firm and its products or services. However, as firms grow, and global markets of all kinds consolidate, we may expect to see more of the latter organizational styles on this list.

<table>
<thead>
<tr>
<th>THE OPENING ROUND: WAYS TO ENTER FOREIGN MARKETS</th>
<th>STRATEGIES FOR ENTERING FOREIGN MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Franchising: Locals buy the “brand” and apply the parent company business model. Especially popular in service industries, with notable U.S. retail-related business such as quick-service restaurants standing as prime examples. In these circumstances, the HR</td>
<td></td>
</tr>
<tr>
<td>- Franchising</td>
<td></td>
</tr>
<tr>
<td>- Joint Ventures (CJVs vs. EJVs)</td>
<td></td>
</tr>
<tr>
<td>- Merger and Acquisition (M&amp;A)</td>
<td></td>
</tr>
<tr>
<td>- Wholly owned subsidiary</td>
<td></td>
</tr>
<tr>
<td>- Direct investment in new operation (WFOEs and FICEs)</td>
<td></td>
</tr>
</tbody>
</table>
function focuses on such areas as training, to maintain consistency and standards of the parent company – critical in sustaining its brand, but efficient as a way to quickly gain market entry, with local managers who understand the business climate and culture. Related models for manufacturing and other firms include licensing products or subcontracting manufacturing, thus taking advantage of often lower-cost offshore production.

- **Joint Ventures (JVs):** In prior years, JVs were one about the only legal way to establish a business in China. Direct foreign investment (DFI) was limited, so this became a dominant method of entry. There were many stories of disastrously failed “marriages” of this type, due in large part to the inability of Chinese and foreign partners to understand one another – both literally and figuratively. In addition, there were also instances of JV partners using the local JV operation to conduct such dishonest practices as running the factory after hours to produce the licensed or contracted product, then placing the product for sale in the Chinese market, in direct competition with their supposed U.S. or other foreign “partner”.

- To be sure, there are many reasons why JVs can go sour, but selecting the proper partner is essential. Due diligence is of the essence, e.g., assessing the fundamental integrity of a potential partner, and their real
ability to do what they say they can do, whether it is executing the agreed-upon services, assuring proper licensing and title for real estate, and similar matters.

- Despite all these challenges, JVs remain a viable method for rapid entry into China and other countries. However, their popularity has waned somewhat, in part because of changing regulations that make it easier for companies to expand directly into China (especially when China joined the WTO in 2001), increased experience and sophistication at opening one’s own foreign operations and, no doubt, the complexities – and horror stories – of JVs from before.

- One popular approach has been to modify the legal structure of JVs (Plafker, 2007). This approach favors a Cooperative Joint Venture (CJV) where such governance and control matters as board membership, voting rights, staffing, etc. are negotiated and agreed in advance. This is in contrast to Equity Joint Ventures, where the emphasis is more on valuation of each partner’s financial contribution. Again, a seasoned HR team – and good attorneys – can help assure that the partner due diligence, and the detailed negotiations for management and operational controls, can make for a much more successful partnership.

- Merger and acquisition: Popular as a way to gain rapid market entry, and to quickly establish
the parent company’s brand and identity. There are risks, notably the acquisition of financial and other liabilities from the acquired company. HR often plays a key role in assessing such risks, for example, evaluating compensation and benefit liabilities, planning for integration with the parent company, as in downsizing and consolidation to reduce duplication and take advantage of operating and capital efficiencies. (Many of these latter steps are also subject to significant government regulation.

- Wholly owned subsidiaries: These are a special case of an M&A strategy, and can include development of an entirely new business/facility (say, a store or manufacturing plant) acquisition of an existing operation – which is certainly faster and easier. Retailers have pursued this strategy in China, including acquisition of chains such as Five Star (Best Buy), Homeway (Home Depot), and others. HR has a role to play regardless of subsidiary strategy. A start-up operation poses challenges of creating an entirely new HR management and staffing enterprise, while acquisitions pose their own challenges, including adaptation of existing HR practices and/or integration of those of the parent organization.

- Wholly Foreign-Owned Enterprise (WFOE, pronounced Wo-Fee): Eliminates challenge of dealing with partners – but also many of the potential
advantages, especially things like local connections, cultural understanding, etc. In recent years, a newer form of WFOE, called a Foreign Invested Commercial Enterprise (FICE) has become more popular in China. These arrangements make it possible for retail/wholesale enterprises, for example, to enter the market without a local partner, and may only require local approval, thus removing some of the legal red tape that can slow down foreign investment. In any case, starting a “Greenfield” operation in a foreign country demands superior skill from HR practitioners, as noted above. Even if the “deal” is properly structured, it is critical to have on-the-ground knowledge of the community where a new operation is located, create proper organizational structures, procedures and controls, and do a comprehensive job of staffing.

• Whatever the entry strategy, specialized knowledge and sound IHRM experience is required to initiate and sustain a successful venture in international expansion. Countries such as China offer great prospect for growth and profit, but the “risk” element is significantly higher.

• The overall trend (with occasional throwbacks) is towards expanded opportunity for international investment. However many companies will point out that it is not the money” that presents the major barriers, but the skill and ability of the
company to execute a successful organizational and HR strategy, with particularly sensitivity to where things are the same as “back home” – and when they are different.