### SEGMENT OBJECTIVES

1. Understand the cultural and societal context of the MNRE – business impact and IHRM implications
2. Historical and contemporary relationships between foreign merchants/retailers and China; effects in current context
3. Analysis of some specific cultural aspects of Chinese society and business practice
4. Adaptation of retail practice, including HRM, to match cultural, economic and demographic factors in China
5. Approaches to the integration of “Country” culture and “Corporate” culture

### READINGS AND PREPARATION


<table>
<thead>
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<th>PERIPHERALS</th>
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<tr>
<td>- Class exercise – international stereotypes (class “fills in the blank” as a group to characterize presumed common characteristics of people of various countries and cultures)</td>
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<td>- Video segments and “war stories” from IHRM practitioners to demonstrate culture and context impact on HR management practice, especially in China, but including other counties to show contrast</td>
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<td>- PowerPoint slides to support presentation</td>
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1. **The general challenge of differences in cultural environments**
   
   *[Instructor note: Begin the class by applying the lesson plan shown on the right. Adapt to suit time and class size. Then, debrief the exercise by having students report what they wrote down for each group identified, noting responses on a board, chart or smartboard, including a show of hands for how many people had the same or comparable response. Discuss how these impressions may have been formed.]*

There have been many attempts to define “culture”. They vary to a greater or lesser degree, depending on the perspective of the person writing the definition (say, an anthropologist versus a sociologist), the level of analysis (a nation or society, versus a business organization), and the particular behaviors, ideas or

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<th>Defining “Culture”: Schein</th>
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<td>- Artifacts and Behaviors</td>
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<td>- Values</td>
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<td>- Assumptions</td>
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| Defining “Culture”: Hofstede |
values being explored.

- For example, here is one definition of “culture”: “….a named human population sharing an historic territory, common myths and historical memories, a mass public culture, a common economy and common legal rights and duties for all members” (Smith, 1993). This definition obviously focuses on the “societal” level of analysis, beginning with the concept of a “named human population”, which potentially could be a country (say, China) or even a U.S. state population (e.g., “Texans”).

- Edgar Schein (2004) deals with the concept of culture within an organizational context, and identifies three levels of such organizational culture:
  
a) **Artifacts and behaviors**, including aspects of the organization that can be observed directly, such as office design (e.g., an “open office” with lots of cubicles, but little or no evidence of “corner offices” or executive suites), how people dress for work, stories/jokes that people tell, etc.

b) **Values**, notably those are explicitly stated (or to which the organization aspires). These are often seen on lobby posters and in annual reports from the CEO, including such goals as “Always put the customer first”, “Integrity and honesty in all business dealings”, or “Celebrating diversity”. Note: It is not a trivial matter to be explicit about how members of the organization are expected to behave, even when these goals are not always perfectly attained; standards are important, and those selected can speak volumes about the organization’s culture.

c) **Assumptions**. These include the values that the corporation/organization actually expresses – which may or may not bear a close relationship to the values expressed

- **Power Distance**
- **Individualism vs. Collectivism**
- **Masculinity vs. Femininity**
- **Uncertainty Avoidance**
in the formal statements noted above. One way to understand this distinction is in the common experience of a new employee who, after the formal company orientation, is assigned a “buddy” to help him/her get settled in a new job. The “buddy” then proceeds to make it clear to the new hire “how things really get done around here”. This expression of assumptions can vary across organizations in the degree to which there is a match with the stated values.

• It is beyond the scope of this segment to delve fully into the concept of “culture”. Briscoe, Schuler and Claus (2009, p.78) offer a pragmatic definition that will suit our needs here: *Culture is the characteristic way of behaving and believing that a group of people have developed over time and share.*” They point out that culture provides a sense of shared identity and belonging, a sense of what is “appropriate” behavior and a framework for passing on knowledge, beliefs and norms.

• A caution: imprecision in the use of the term “culture” has many pitfalls, particularly when individual differences are attributed to such “culture” – and vice versa. Nevertheless, it is important to consider the impact of cultural variables on IHRM.

• We will use specific examples to show how a number of cultural factors – but definitely not a comprehensive list – may impact the practice of IHRM.

• Culture is not easily assessed due to complexity, nuance, language barriers, etc. It does not easily lend itself to a quantitative analysis, though as noted above, there have been, and continue to be, many efforts to do so. And while the specific role of culture on the human resource function can range from subtle to obvious, its influence is substantial.
One of the most frequently cited studies of “national” culture was conducted by Dutch researcher Dr. Geert Hofstede over 30 years ago in 1980. Although there has been a good deal of refinement – and criticism of Hofstede’s constructs -- as is common in reaction to groundbreaking structure and conclusions, the following list of the core dimensions of his framework can provide a useful starting point for analysis of cultural differences -- and even conflicts:

a) Degree to which managers and employees accept power distance between one another
b) Degree of individual versus collectivism
c) Masculinity versus femininity in social values
d) Degree of uncertainty avoidance and tolerance for ambiguity

As one might imagine, conflicts could easily arise in situations where a manager is part of a culture that is very hierarchical, and where subordinates are not expected to question decisions or authority, while the “subordinates” are associated with a culture of open discussion and questioning to achieve shared group consensus on business decisions.

Similarly, cultural stereotypes can intrude on and/or shape our perceptions – as seen in the opening exercise. Yet stereotypes frequently influence business decision-making, e.g., where to locate/expand, the extent to which there is a perceived “fit” between the expanding company and the targeted market.

In China, for example, it has been common to portray the people as part of a monolithic, centrally-driven and managed culture. However, retailers and other companies find that there are substantial differences across cities and regions. For example, Shanghai has a very different culture than Beijing, and both are quite different from a more distant city such as Chengdu, in a
Stereotypes are not limited to foreign countries moving into a new area. Rather, even within a country, people from different cultural traditions or locations frequently stereotype those from another part of the country. The same thing happens in the U.S., as “Yankees” from the northern states, “Country Boys” from the South, or “Cowboys” from Texas and the Southwest perceive significant differences in accent, attitude, work ethic, personal styles, etc.

A major risk: over-generalizing about a culture – which may frequently appear quite homogeneous to an outside observer.

### 1. Cultural impacts on business practice

- A number of culture and culture-related dimensions can shape the success or failure of a multinational retail enterprise
- **Language** differences are among the most visible factors
- In China, residents from different parts of the country are frequently as unable to communicate with one another, as are retailers from Western countries who look to do business in China. For example, a speaker of Mandarin Chinese may not be able to understand the speech of one who speaks “Cantonese” (to use the conventional Western classifications). However, written Mandarin Chinese, using common characters, and reflecting a shared literature, is thought of as “the Chinese language” by many people in China. It should be noted that there is a completely different listing of Chinese dialects and languages in use by people in China itself – not just the “Western” names. (See, for example, [www.chinesedialects.net](http://www.chinesedialects.net))
- Generally, it is significantly easier to move into a market where the language barriers are lower.

### Cultural Impacts on International Business Practice: Examples from China

- Language
- History
- Religion
- The lingering Colonial impact
History can also provide a barrier – or conversely, a natural sense of “connection” – that can have an important impact on the ease and effectiveness of international retail expansion. For example, China and Japan have a centuries-old background of wars, invasions and other historical events that can create animosity that lingers for years, even if current members of the population have not experienced the events personally, thanks to the persistence of cultural perceptions.

Countries that are perceived as being closely linked historically (e.g., the U.S.A. and Great Britain) may also find that these traditional ties may shape how they are accepted, even if two companies – one British and the other American – have no particular associations at the current time.

Religion, with its particularly close links to values, can be a powerful influence in shaping how a foreign company is perceived. Most Western retailers operate in a predominantly secular business environment, but this is certainly not true in many places in the world. One need only look at the friction between Jews and Muslims in many parts of the Middle East, or even between Orthodox and Reform Judaism or Sunni and Shiite Muslims to see the profound impact of the religious and values-oriented aspects of different cultural perspectives.

These religious impacts can manifest themselves in terms of the degree to which a retailer or other business is welcomed (or rejected/mistrusted) in a particular cultural setting, as well as influence what merchandise is sold, how, and by whom. For example, cultures that value a strict separation of the sexes, and require very modest dress, represent a difficult target market for retailers in the fashion industry. Likewise, supermarkets must frequently carry quite a different type of food to satisfy both religious and other regional/cultural differences and preferences.
2. History: A long progression of relationships between China and the West

- It is impossible to fully understand -- and appreciate -- the full nature of the relationship between the Chinese government (and people) and “foreign” retailers without having some sense of the very long history of China’s relationship with these merchants. Indeed, even native Chinese merchants have has a highly varied, and often contentious relationship with their own government. All of this history affects the current climate.

- Although there has been a recent explosion of retailing in China, from both internal and external sources, the country has a long retail history and rich commercial past. Since Marco Polo’s time, it has been sought as trading partner by the West. China has great natural, artistic and people resources that make it an attractive market for people who want to both buy – and sell -- things. Throughout this history, there has been a pattern of opening and closing borders and boundaries to those who wish to do “retailing” or other commercial business. It is not just a phenomenon associated with a rigid, centralized, “Communist” government. Indeed, Communism in the PRC is a very recent phenomenon, though it dominated the West’s view of the country for much of the second half of the 20th century. This five-decade recent history in many ways helps shape many Western, and certainly, U.S. public perceptions of the country.

- While it is possible to look even farther back in history, it is useful to start over 600 years ago, in the Ming Dynasty. Then, China had a rich, and essentially capitalist merchant environment, with thousands of entrepreneurs setting up production and shops, with a concentration on products such as silk, cotton and textiles. Some of these entrepreneurs became quite successful, and with
their use of abundant -- and cheap -- labor to make their goods, became quite wealthy by then-current standards. We can even see the beginnings of a "class" system, with echoes that still reverberate in the present. Southeast China, which later became a trading center, especially in the port cities, found particular success in making and trading silk and cotton.

- The Ming dynasty, which thrived for nearly 300 years, from 1644-1911, displayed what might be called a "backlash" to the relatively free-form and capitalist approach to both production and merchant activities. Restrictions were imposed on businesses, such as controls on the size of factories, imposition of high taxes on merchants, etc., and the door closed rather tightly on foreign trade. China still wanted to import some items, such as some items, such as woolen fabric and clothing, spices and other items. But the "thumb was on the scale" of trade in favor of Chinese exports, such as the beautiful porcelain items, such as vases, bowls and plates, for which the Ming dynasty is so famous.

- This unbalanced trade system did not sit well with Western interests, notably the British. They wanted more ability to sell their own good into China -- especially a particularly important product: opium! This led to several conflicts during the 1800s -- the famous Opium Wars. The first of these wars was "settled" by the treaty of Nanjing in 1842, though basically at the point of a gun. China was forced to open Shanghai and four other ports to Western trade, eventually including retail establishments. (The lingering impact of this opening of Shanghai and subsequent retail commercial development remains in Shanghai’s famous colonial-era shopping district, known as the Bund).

- China gradually evolved to a "colonialized" society, with the government physically and militarily powerless to halt the abuse of its own citizens, especially in these port cities. Crime,
prostitution, drug abuse and other social ills became common, even as some Western investors became wealthy – as did and emergent Chinese merchant ruling class. The scene for class warfare was set.

- Despite these problems – both immediate and emerging – the late 19th and early 20th centuries were a time of increasing acceptance of Western goods and the retail merchants who offered them. Major department stores, owned by both Chinese and Western companies, proliferated in the port cities, and there was much money to be made. Media outlets, including those using the “new” technology of radio, experienced rapid growth.

- However, the previously mentioned income gaps and class warfare also expanded, with civil strife becoming common.

- This tension between Western-style consumption, but a poor underclass persisted in a good part of the first half of the 20th century.

- In the next section, we move to the “modern” era (though this term is relevant mostly from a Western perspective, given China’s long history).

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<th>3. World War II, Civil War and “Fenpei”</th>
<th>Political and Class Tumult – With Continuing Impact</th>
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<td>- In much of the first half of the 20th century, as noted above, there emerged a great divide between a wealthy – and sometimes foreign/colonial style – business class, and a vast, poor underclass, with little resembling a middle class as a buffer.</td>
<td>- Class divisions take a toll</td>
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<td>- Distinct political parties emerged, including the Nationalists and Communists. These parties united for a time during World War II to defend China against the invading Japanese. But as soon as the war ended, the prior “class” – and ideological – conflicts resumed.</td>
<td>- Nationalist and Communist Parties</td>
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<td>- WWII and temporary, strained “unity”</td>
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- The Communists successfully drove Gen. Chiang Kai-shek out of China during a bloody civil war, with the Nationalists ending up retreating to Taiwan.
- October 1, 1949, marks the formal establishment of the People’s Republic of China, under the leadership of the Communist Party and Mao Zedong, who proclaimed its establishment from Tiananmen Square (“The Gate of Heavenly Peace”).
- The Communists set a deadline of 1956 to transform private businesses into “whole people enterprises”, and proceeded over the next five years to expropriate all major industries, including retail. Luxury department store were taken over by the government, and even renamed, presumably to highlight the lack of discrimination by class, for example, “Number One Department Store”. [Note to instructor: Some western style department stores might now covet such a name.]
- Repeating a frequent “cycle” in Chinese history, there was a closing of relations – commercial and political – between China and the West, and a halt to foreign commercial expansion.
- The subsequent Cultural Revolution of 1966 – 1976 created an extremely poor climate for “retailing” as it is commonly known in the West. Worse, it led to a time of great hardship for the Chinese, with poor food supplies that reportedly led to the death of millions of people.
- The Communists, who had been supported by the Russians in the civil war against the Nationalists, worked to impose a Soviet-style managed economy, with central direction/control of production, allocation and supply chain components, all the way through to “retail” delivery. The Chinese word for this approach is “Fenpeij’.
- The era was marked by a system in which a State Planning
Commission decided factory production goals and allocated raw materials.

- Production was then sent to Ministry of Commerce-controlled Central Distribution Centers (CDCs) in Tianjin, Shanghai, Guangzhou, which in turn served local, 2nd and 3rd tier DCs at the more “local” level
- Wholesalers and retailers were government-owned, and weren’t really “players”, just storage facilities, prior to distribution of goods.
- Layered on top of this centrally-controlled system were strict price controls and gross margin (profit) limits that were tightly enforced.
- In one sense, this reflected a philosophical/ideological belief that “production” was the primary goal, and “distribution” – while a necessary requirement – added little value. Retailers could not fail to take notice.
- In the meantime, the previous Chinese “commercial” group largely moved to Hong Kong and, as previously noted, the Nationalists to Taiwan, where each developed thriving retail communities that stood in some stark contrast to the rather staid – some would say “grim” – sameness of the Communist economy.

[Note to instructor: It is extremely important to note here the historical context of these cultural and economic developments. In particular, one must be careful not to cross the line from highlighting the impact of the Chinese Communist Party on commercial retail (and other) enterprises into making this a polemic against a particular political system. The goal is to provide some framework for understanding how China’s recent – and even ancient – history might shape its contemporary attitudes toward Western-style retailing, especially when brought to China]
by Westerners! China's long history of openness to trade, then a “closing down” or drawing back, is no secret. And, one might argue, it is grounded in some harsh realities that shape even current thinking. It is far beyond the scope of this course module to detail all the nuances of this history, or to debate the relative merits of political systems, but it is impossible to understand the recent economic and commercial climate without some sense of the events which have preceded it.]

4. Post-Mao Zedong China

- Mao Zedong died in 1976 and, it might be said, so did the strict “Fenpei” approach to managing this nation’s economy. Mao’s handpicked successor, Hua Gofeng, served as something of a transitional figure in movement away from the Soviet-style approach, spurred in no small part by “leftist” pressures to create reform.

- It had become clear to many in this latter group that “….It was Mao’s policies that had kept China in a severe state of economic backwardness; and it was Mao who systematically punished all those who possessed the requisite knowledge, expertise, and experience needed to modernize the country. If Hua and other party leaders were flying blind in their efforts to introduce economic development, it was because Mao had applied the blindfold.” (Richard Baum, *The Fall and Rise of China – Course Guidebook*, p. 109, The Teaching Company, 2010.)

- Hua introduced – at least in intent -- what came to be known as “The Four modernizations”, among them an emphasis on raising academic standards and performance (versus simple preference for radical communist activists), expanded use of the latest technology, expanded rural free markets and perhaps most relevant to IHRM in general, and retailing in particular, the use of
“economic methods”, instead of purely administrative ones, to
guide economic development, which had fallen into a terrible
state under the Cultural Revolution.

- While Hua’s direct impact on the economy was limited, the
transition from Mao was unmistakable. In 1978, Hua was
politically marginalized – essentially displaced -- by Deng
Xiaoping. Deng accelerated the movement toward modernizing
the Chinese economy, including a thaw in political relations with
the U.S. during the term of President Jimmy Carter. The path
towards reform was not all smooth, however, as direct foreign
investment – even in the form of joint ventures – was not
permitted until 1991. Also, there were political and civil rights
reversals and throwbacks, most notably the confrontation in
Tiananmen Square in 1989, when Deng declared martial law.

- However, an important development occurred in 1979 with the
establishment of Special Economic Zones in four coastal cities.
While they were primarily designed to benefit the development of
China’s manufacturing and export business – and did so in
spectacular fashion during the 1980s and 1990s – they also
permitted, indeed encouraged, foreign investment and joint
ventures though such incentives as tax discounts and reduced
export duties. These zones became a key factor in China’s
overall economic opening and expansion (though not without
controversy inside China among those who did not see this as
“reform”.) Outside these zones, foreign joint ventures not
allowed.

- Then, in 1991, limited retail trade experiments in 6 cities and 5
special economic zones opened. But….only 2 foreign joint retail
ventures per area (i.e., 22 total) were permitted, none could be
majority/wholly foreign-owned, none could not be wholesalers,
and imported goods could not exceed 30%. Note that this is
actually quite recent history, especially by China’s long historical standards.

- Since then, China has worked to encourage economic – and some retail – development under a series of frequently-updated “Five-Year Plans” – over 10 of these so far. Current plans emphasize retail and other commercial expansion in western provinces, and in second- and third-tier cities, as there is a sense that the first-tier and coastal cities (e.g., Shanghai and Beijing) are fairly “saturated”.

- The plan emphasizes expansion of a variety of retail formats, including fresh product supermarkets and specialty stores, but contains some controls on extension of hypermarkets and warehouse-style stores. It also hopes to support creation of 5-10 “Chinese” retail chains, and expand 3rd-party logistics and Distribution Center options.

- Notably, the recent plans hope to learn management and operational skills from Western-style retailers – with clear implications for IHRM.

- There have been many more detailed and nuanced developments in China’s move towards freer retail markets, so the previous sections should be considered only a very general overview. Plus, things change rapidly in China. For example, in mid-April, 2011, the government announced restrictions on advertising retail goods that emphasize opulence, exclusivity or conspicuous consumption. It is a matter of conjecture as to whether such restrictions will “stick” among the populace – especially those who have accumulated tremendous wealth in recent years – but it is another sign of how China struggles with its progress towards opening markets to retail competition, while maintaining vigilance against the sort of class distinctions that led, at least in part, to earlier economic strife and political upheaval.
As mentioned earlier, the echoes of these previous experiences are heard yet today.

### 5. Human Resource Implications of History and Culture

- In other segments of this module, we will explore how HR practitioners in MNREs have addressed historical, cultural, language and other realities in carrying out typical HR roles, such as organization structure, training, selection and management approaches. However, it should be clear that IHRM practice does not occur in a vacuum.

- There are a number of articles, books and guides regarding ways to speak, dress, bargain and generally conduct business with people from different parts of the world. These might be dismissed as the stuff of newspaper advice columns (e.g., “Ask Miss Manners”). Yet, as etiquette experts – and foreign service officers – will quickly point out, the essence of etiquette is to behave in such a way as to make the other person feel comfortable, not to impose random, stuffy rules.

- Foreign business people who come to the United States face related challenges – but in reverse. We “know” implicitly how one “should” behave – how to shake hands, how close to stand, who speaks first, where to sit at a conference table, how friendly one should be with a boss or employees, how negotiations should be conducted, etc. There are also formal rules and laws about labor relations, contracts, exchange of gifts of substantial monetary value, and so forth. Occasionally, even a U.S. manager must consult these legal guidelines, but most of the time, these are simply implicit “givens” – simple and transparent to us, but often confusing to people from another culture. Typically, it is only when such conventions are violated, even inadvertently, that we even become aware of them. Yet such violations can have
profound impact on business transactions and perceptions of the manager and organization.

- There are a number of useful books available that address business culture and etiquette in Asian countries, including China. *Asian Business: Customs and Manners*, (Meadowland Press, 2007) by Mary Murray Bosrock, a writer, lecturer and expert on cross-cultural communication, is a country-by-country guide to business practice in Asian countries. It becomes apparent that even though there are some general “Asian” customs, individual country variations are significant. Ted Plafker’s book, *Doing Business in China*, (Warner Business Books, 2007), is a particularly helpful, in-depth look at, as the book’s subtitle says, “How to profit in the world’s fastest growing market”. (Plafker is a writer who has worked for Time Magazine and many Asian, U.S. and global publications.) It deals with both cultural and legal aspects of Chinese business practice.

- HR practitioners are often expected to provide particular leadership in matters of business practice, with special sensitivity to “how’ business is transacted. Thus, there is a special need for HR managers to develop in-depth understanding of the people, culture and laws of the host country, with China being no exception.

- From a legal perspective, China presents something of a conundrum. On the one hand, as we have noted above, the former regimented, regulated, Fenpei-style of business practice regularly makes itself felt anew, with ordinary citizens having little independent legal recourse. Yet, as any HR manager of recent experience will attest, there is also another side to China. Laws are often treated as something to be “gotten around” or even ignored. As Plafker notes in his aforementioned book, (p.49), “…..people in China often do exactly what they want, instead of
what the law would have them do.” This contrast presents a very perplexing situation for U.S. and other Western managers used to a different set of rules. One ignores the required rigid conformity to government laws at one’s own (and the business’s) substantial risk, but it is also important to do what practical things are needed to execute day-to-day business.

- Virtually any experienced HR manager in China will most certainly be clear about one thing: You need capable, experienced legal counsel, knowledgeable in the vagaries of often changing Chinese law. You cannot simply rely on the U.S. corporate legal staff. It is not always easy to find such help, as there are relatively few lawyers in China (one lawyer for every 13000 Chinese, compared to one for every 300 in the U.S., though as Plafker (2007, p. 50) points out, this is actually a significant increase over the past couple of decades.)

- While the general direction of legal reform is that of a decidedly freer, more Western style, such change typically proceeds in fits and starts, reflecting the conflicting tugs of the past political system and the standards expected by the World Trade Organization (which China joined in 2001) and other global benchmarks.

- It is beyond the scope of this segment to deal with specific legal HR questions regarding doing business in China. The segment references provide resources for more detailed study. Nevertheless, here are but a few of the considerations that must be addressed:
  - Staffing the HR function itself (There are very few programs for training IHRM professionals.)
  - Managing partnerships and joint ventures, including integrating the corporate and local cultures and practices
  - Developing and delivering recruiting, selection and training
| ✔ Establishing HRIS capabilities, and coordinating these with corporate systems |
| ✔ Creating compensation systems that reflect local wage structures and practices, but that are compatible with corporate systems, and flexible enough to accommodate currency fluctuations and exchange rates |
| ✔ Providing for employee health and safety, including approaches that are consistent with local practices and laws, but also reflecting the parent company’s practices and values, as well as “benefits” structures |
| ✔ Creating systems to manage all HR rules and support for expatriate managers (and even visitors) |
| ✔ Determining laws and regulations affecting employee data transfer from one country to another |
| ✔ Establishing work schedules, vacation and holiday policies, etc. that reflect local laws and customs, while still meeting corporate requirements |
| ✔ Establishing relationships with local officials and legal agencies to assure continued compliance and provide a means for any potential conflict resolution |
| ✔ Assuring a systematic method for tracking and responding to changes in local and national labor law – a common occurrence in China |

6. Summary

- The challenges of IHRM practice in general – and in China in particular – are many. But the opportunities are great, both for businesses and for managers who become expert in IHRM.
- There is no substitute for on-the-ground practice, but as more companies expand globally, there will be increasing resources for
training and study in IHRM practice. With countries such as China and India, approximately 3 billion combined population, poised for sustained growth, there will be great demand for HR managers who understand the complexities of IHRM and can take a leadership role in it.

- Developing both multi-national legal knowledge and cross-cultural expertise will most certainly become requirements for HR practitioners in many companies, as virtually every business seeks to grow in the global marketplace. It is both a great challenge and a wonderful opportunity.