Developing an International Business Presence
What to Expect When Expanding
A more integrated and interdependent global economy has created the expanding world marketplace we live in today. Declining barriers to cross-border trade and technological advancements, like the Internet, have both contributed immensely to the world’s interconnectedness. The overall effect of this worldwide integration is the formation of an environment more accessible to companies, both large and small, seeking to develop an international business presence.

In their quest to expand globally, organizations are faced with a number of decisions. Some of the most important are those regarding geographic location and human capital.

This white paper discusses international expansion, highlighting what businesses need to be aware of in their mission to be successful on a global scale and discover top talent worldwide. Areas of focus include an overview of international staffing and recruitment, business and employment opportunities in growing international markets and some differences companies will encounter outside the United States, such as variations in culture and HR practices.

An Overview of International Staffing and Recruitment

Global expansion is attractive to companies for a host of reasons, one of the top being the possibility of increased profits. Expanding internationally not only provides firms the opportunity to be more profitable, but also allows businesses the ability to grow profits at a higher rate than would be possible with solely domestic operations. Furthermore, costs can be reduced by producing commodities or utilizing services in countries where labor and/or supplies are less expensive.

Increased competition is an additional reason organizations consider international expansion. For some companies, the prospect of not expanding to other countries means a substantial loss of market share to the competition. Dr. Darrell Brown, Clinical Associate Professor of Management at Indiana University Kelley School of Business-Indianapolis states, “You would be doing yourself a disservice if you did not consider the global marketplace. More and more companies are expanding internationally, even small to medium-sized companies. That is the future.”

Staffing Approaches
For companies that venture into the global marketplace, it is imperative to evaluate and implement an appropriate staffing program. Typically, three international staffing approaches are recognized: ethnocentric, polycentric and geocentric.

An ethnocentric staffing approach uses parent-country nationals to fill all management positions. A firm might consider this approach due to a perceived lack of qualified individuals in the host country or a desire to maintain a cohesive corporate culture through parent-country employees who have years of experience. Additionally, a company’s core competencies are more easily translated by employees who have firsthand knowledge of them. Firms that employ this type of strategy are typically those that highly value their corporate cultures.

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makes it difficult for host-country employees to advance within an organization, which can lead to higher turnover and decreased productivity, not to mention feelings of bitterness on the part of host-country nationals. An additional reason the approach has fallen out of favor is because it does not allow for deep understanding of the host country’s cultural differences and how they require different marketing and management approaches from those utilized in the parent country. Dr. Brown asserts that making an effort to utilize local labor is “part of being socially responsible.” It builds a better connection to the host country and benefits the company in the long run.

A polycentric approach uses host-country nationals to manage company operations outside of the parent country and parent-country nationals to staff management positions at parent-country operations, including headquarters positions. This policy permits greater cultural understanding than an ethnocentric approach, and is often less costly to establish than other staffing strategies. Similar to the ethnocentric approach, a drawback of the polycentric policy is that it provides limited chances for host-country personnel to advance beyond senior positions within their home countries. Additionally, there is a good chance that communication and cultural breaches will arise over time, leading to isolated office groups. One reason a company may consider this approach is if it is looking to avoid paying high salaries of parent-country managers.

A geocentric approach looks for the most qualified individual for each management position, regardless of that individual’s location. This strategy has numerous benefits and is viewed as the most desirable international staffing setup, if it is possible for a firm to employ it. The approach creates a large group of company managers that are both familiar and comfortable with multiple countries and cultures, constructing a strong and united multicultural organization with an informal management network. This

strategy is often the most costly to implement, due to high training and relocation costs and the use of a consistent base pay level among countries. Additionally, immigration policies can make it difficult to implement this staffing strategy, as many countries require international firms to provide in-depth documentation if they wish to hire an individual from outside the host country.

Expatriate Labor
As mentioned, an important decision companies make when expanding internationally is whether to utilize local labor or relocated individuals, commonly termed expatriates. Expatriates are a desirable option, if maintaining the company’s culture and management style in the international market is a top priority. However, if not executed properly, the effort can have negative effects on both the expatriate and the business. The costs of a poorly executed expatriate program include not only the potential loss of good employees, but also loss of market share, training and travel expenses, a damaged company reputation and possibly a weakened ability to attract top candidates for future international opportunities.

If it is determined that expatriates are needed to accomplish a company’s business goals, the firm is first tasked with selecting appropriate candidates. There have been numerous studies conducted to determine the types of employees best suited to fill the expatriate role. Common findings indicate that important characteristics to evaluate include technical competence, interpersonal skills, motivational state, family situation and language skills. According to Erin Reagen, owner of The Reagen Group, an Aus-
tralian search firm specializing in the recruitment of executives, professionals and technical specialists, “The best and easiest candidates to place on an international basis are cooperative, realistic about salary/relocation assistance, well educated … and have a significant interest in the region (they have worked there in the past or have family there).”

Once candidate selection occurs, it is essential for organizations to provide extensive training and counseling for both the employee and the employee’s family. Not including the employee’s family in training and counseling prior to the international move can significantly hinder the transplanted employee’s success. Proper training and preparation can help decrease an employee and his or her family’s anxiety about the adjustment and increase the likelihood that the company’s business objectives are met. Reagen advises that “it is good if an organization gives the family the opportunity to travel to the new country first and meet the local employees.” She also has found that when companies “provide tax assistance, concrete financial advice and a promise of future employment opportunities in their home countries” employees are more likely to feel supported by their employers.

A critical step in the expatriate process is repatriation. Studies show that up to 25 percent of returning expatriates want to leave their companies for a variety of reasons, one being unmet career expectations upon their return. In order to combat this problem, organizations must have effective processes in place to address employees’ reintegration. Career and family counseling can be especially helpful upon an employee’s return from a post in another country.

Recruitment Models
Another area firms will want to examine when establishing international operations is whether recruitment is done on a centralized or decentralized basis.

A centralized model provides support for local business units and concentrates the company’s HR and recruitment expertise. One of the challenges of a centralized system is adapting the recruitment model to fit the various HR practices and cultures involved. However, centralized processes help organizational objectives to be met with greater frequency and decrease the unnecessary duplication of recruitment activities.

Decentralized recruitment, conversely, provides a higher degree of flexibility, freedom and control for individual managers, which behavioral scientists suggest provide motivation to give more to their jobs. In addition, a decentralized business structure can lead to better decision making, as managers are closer to the individuals and information they need to make good decisions. However, there is the possibility that managers may become overtaxed, leading them to make bad decisions on a more frequent basis.

In some cases, it may make sense for businesses to centralize select parts of their recruitment operations, while decentralizing others.

Many companies seek the assistance of an outside firm to help accomplish their international recruitment objectives. Outsourcing can provide both the scalability and flexibility to handle an organization’s changing hiring needs. It can also provide a process that is more consistent and efficient. Pairing with an international recruitment partner can reduce staffing costs, as well as time-to-fill and other equally important recruitment metrics. Additionally, firms can gain strengthened employment brands, national...
favoritism cases may be reduced and managers can spend less time on tasks related to recruitment.

Global Business Expansion in the Current Economy

The current global economy has forced many companies to examine their business operations. This has included tough choices like budget cuts and labor force reductions. In some cases, it has also included putting growth activities, like expansion, on hold for the time being. However, not all companies are standing still. Those that have been able to weather, and even thrive during, the financial downturn are considering activities that will place them ahead of the competition once the recession ends. According to Brown, organizations that were considering expansion prior to the recession have slowed their efforts; however, “companies that are already in the international market are expanding in order to stay competitive.” Additionally, international firms are utilizing expansion activities to offset the United States’ present economic situation.

Though many areas are facing challenging economic times, there are still opportunities available around the globe for both candidates and corporations.

Current Business and Employment Opportunities: Asia

Asia is home to key global economies, the most notable being China, Japan and India. Japan and China have gross domestic products rivaled only by the United States’, and India’s population is second only to China’s. Major industries in China include automotive, construction, transportation infrastructure and energy. According to the Economist.com, China is expected to experience more than seven percent economic growth in 2009. Although a much lower figure than that of recent years’, the growth is significant considering the size of the country’s economy. In Japan, some of the leading industries ripe for U.S. investment are telecommunications equipment, electronic components, aerospace and pharmaceuticals. The most promising industries in India include information technology services, manufacturing, pharmaceuticals and telecommunications.

Current Business and Employment Opportunities: Europe

The economies of Europe are not growing as fast as some in Asia, but the region is home to a few very significant and large markets. Three of the largest economies in Europe are England, Germany and France. Major industries for Germany, the world’s largest exporter of goods, include automotive, pharmaceuticals and life sciences, logistics, banking and insurance and IT software and hardware. In France, the largest country in the European Union, aerospace, energy and agricultural industries are some of the most promising. The major industries in England are information technology; manufacturing; pharmaceuticals and, most recently, finance.

Current Business and Employment Opportunities: Middle East

The Middle East is a region of extremely varied political and economic climates. Iraq and the United Arab Emirates (UAE) are two important economies in this region. In Iraq, the efforts of both the U.S. and Iraqi governments have helped this war-torn country experience growth in some areas. The construction materials, chemicals and petrochemicals and engineering industries are projected to be the most profitable in the near future. Strong industries in the UAE include oil and gas production, manufacturing and con-
Close proximity to Latin American nations affords numerous U.S. firms less costly manufacturing and labor options. For this reason, many U.S. companies pay close attention to the economic state of the region. In Mexico, industries experiencing the most growth include agriculture, manufacturing and the oil and gas sector. Like the majority of countries across the globe, Mexico is expected to see much slower growth over the next year or two. Argentina’s economy has experienced significant growth over the last five years, which has significantly reduced the nation’s poverty levels. Main industries in the country are manufacturing, agriculture and finance. Brazil’s economy has also experienced growth over the past few years, along with decreased unemployment. Agriculture is an important industry in Brazil; important products include sugar cane, coffee, tropical fruits and commercial cattle. Brazil additionally has one of the most advanced industrial sectors in Latin America, with a focus on automobiles, steel, textiles, cement, computers, aircraft and consumer durables.

Differences to Be Aware of When Conducting Business Outside the United States

Once the decision has been made to go global, there are countless factors to consider. After the expansion locale is chosen, companies must take the time to understand the differences they will experience in culture, economy, politics, law and HR practices.

Cultural Differences
A country’s culture generally defines the values and norms of its people. Being knowledgeable about a country’s culture not only allows a company to present itself in the best manner possible, but can also prevent serious repercussions in some instances.

Minor faux pas in behavior, due to a lack of understanding, could leave a potential client or candidate feeling disrespected or confused. The way business cards are exchanged in Japan is much more formal than in the United States, for example. It is expected that the recipient of a business card will look over the card, noting the name and title, and thank the presenter. It would be considered rude to write on the card or simply place it in a pocket unprotected.

Another example of a relatively minor cultural difference is the value placed on timeliness. In the United States and Germany, it is important to be punctual and time is seen as something of value that can be spent, wasted and lost. However, in Latin and Mediterranean cultures, more value is placed on personal interaction than on adhering to strict schedules. This cultural difference could pose a challenge for unaware firms scheduling a candidate interview with a hiring manager.

More severe differences between cultures include laws that hold serious consequences. Though accepting an invitation to eat and drink with the boss in China is always encouraged, in Saudi Arabia, alcohol consumption is punishable by imprisonment. Overlooking this type of cultural nuance would obviously do more damage than failing to understand the scheduling habits of a foreign partner.

Economic Differences
The values held by a country’s people influence the country’s economy. There are three gen-
eral types of economies: market, command and mixed.

In a market economy, like that of the United States', production is dictated by supply and demand. A command economy is driven by state-owned businesses. Motivated by a collectivist ideology, the government is responsible for ensuring resources are allocated fairly. This economy is historically found in communist countries and has decreased in popularity greatly since the 1980s. Mixed economies are those that have certain sectors run by the government and other sectors that are private. In this type of economy, the government is likely to take over companies seen as vital to the country, rather than allow them to fail. This is a system that was once popular in countries like Great Britain, France, Italy and India. With more emphasis on privatization, these economies are shifting, or have shifted, to market economies.

When expanding a business, understanding local economies is important. The style of economy, and its stability, will affect factors such as level of competition, government regulation and fluctuation in the price of goods and services.

Political Differences
A country’s political system is determined both by its emphasis on the individual or the whole and by the degree to which it is democratic or totalitarian.

Countries that stress collective goals over individual goals have a socialist system. Social democracy has influenced countries like Australia, Spain, Sweden, India and Brazil. Contrary to socialism, a country that believes a society and political system should be based on individual economic and political freedom holds an individualistic ideal. Political systems are divided further into democratic or totalitarian systems, which can exist with either socialist or individualistic ideals.

Companies ready for international expansion need to understand the political systems of the countries in which they seek to operate. A thorough understanding aids in determining the safety and stability of the area and also provides insights to working and negotiating inside the region. Individuals living in a socialist country will be motivated by different opportunities and benefits than those living in an individualistic society. Countries that have many state-owned companies may hinder a private company’s ability to compete or even enter the market.

Legal Differences
The legal system of a country describes both the laws that regulate and the manner in which they are enforced. It also determines how business is transacted and the rights and obligations of parties involved in business.

Legal systems can be broken down into three main categories: common law, civil law and theocratic law. Common law is based on precedent and custom and is followed in most of Great Britain’s former colonies, like the United States. Civil law depends heavily on legal codes and is found in countries like Germany, Japan and Russia. This system is less flexible than common law, because judges are not free to interpret the law; they can only apply it. Theocratic law is based on religious teachings that are
intended to govern all aspects of life. The most widespread example of theocratic law is Islamic law; however, most Muslim countries utilize systems that are a blend of theocratic and either common or civil law.

An example of an aspect of business affected by an area’s legal system is contract law. When negotiating contracts, a firm should recognize that legal documents can be vastly different depending on the region in which they were created. Contracts created under common law tend to be much more detailed than those drafted under civil law. The interpretive nature of contract law necessitates the need for more detail, but also means higher costs of contract creation and resolution.

**HR Differences**

Recruiting across borders can be difficult to navigate, as no two nations have exactly the same employment requirements, benefits or laws. Consequently, companies should carefully analyze the HR practices of each country in which they intend to do business.

A significant difference to be aware of when negotiating employment contracts is salary range. The base salary for a mid-level manager varies drastically from Mexico to Turkey to Australia. Since this is the case, it is important to set reasonable salary expectations for relocating employees. Reagen asserts that “the high living standards in the United States and Australia are not the norm in the rest of the world, so it can take a lot of time for a person/family to adjust to the new culture.”

How salaries are quoted can also vary from region to region. In many countries, salaries are quoted in 12-month terms. However, in Spain salaries typically are quoted with two additional months’ salaries that are paid in July and December. This is also a common practice in Austria. Countries that include one additional month’s salary include Belgium, Columbia, Israel, the Philippines, Singapore and Switzerland.

Standard benefits differ greatly from country to country, as well. For instance, South Korea’s benefits include four national social insurance plans: a pension, health insurance, industrial accident compensation insurance and employment insurance. In Mexico, employers are required to pay a portion of an employee’s salary toward a housing contribution. And it is common for employees in Spain to receive lunch vouchers.

The interview process also varies across the globe. In the United States, a candidate would most likely present a concise resume to a prospective employer. However, a more detailed curriculum vitae might be expected in other parts of the world. And though the United States has strict guidelines regarding equal employment opportunity and personal candidate information, it is acceptable to ask a candidate’s age and marital status during an interview in some other countries.

Other differences that affect HR practices include notice periods, visa requirements, union guidelines and types of recruitment services available. For instance, union contracts in Mexico must be renegotiated every two years. And in Spain, some managerial roles could require employees to provide up to six months notice.

**Conclusion**

An international business presence is critical for many organizations. With proper planning, international expansion has the potential to be
a rewarding business decision for companies of all sizes. Despite the economic downtown, there are global opportunities available for companies ready to enter foreign markets. Appropriate research regarding areas of desired expansion will help to ensure that the transition is a smooth one.

About PrincetonOne

Headquartered in Skillman, New Jersey, PrincetonOne is a talent services company that creates and implements innovative solutions for unmet recruitment and retention needs. PrincetonOne provides clients with a cohesive strategy for recruiting, retention, staffing assessment, training and organizational development. Through seamless, cost-effective solutions, clients are able to improve workforce performance and achieve critical business objectives. With 30 years of experience, PrincetonOne delivers unified recruitment solutions and measurable results for more than 600 clients around the world.

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