Chapter 5 Review questions and answers

1. **Identify and outline the main approaches to analysing institutions.**

National institutions include government and its ministries, parliament, the legal system and its courts, as well as the police who enforce laws. At a less formal level there are other institutions such as employer or professional organizations.

These institutions can be evaluated by using various approaches including:
- Cross-cultural analysis;
- Comparative authority and business systems (societal effects and national business systems);
- Political economy of foreign investment;
- Comparative corporate legal traditions; and
- Political and contractual hazards.

2. **Why is the historical context an important element to consider when evaluating a country as a destination for an international business?**

The historical context provides a backdrop for the earlier influences on the economy and its development, the languages spoken and the evolution of legal systems. It will affect the attitude to FDI and relationships with MNEs from different countries, especially if the country has previously been colonized. In this case, investment by MNEs from that country may be seen as an attempt at domination through business and economic ties. The historical background may also impact educational influences and training relationships with other countries.

3. **Compare the business systems of two countries. In what ways do they differ and what effect does this have on their labour markets and human resource management?**

To answer this question, the following guidelines are suggested:
A comparison of national business systems can be made by using the ideas of Whitley’s six forms of capitalism identified in Europe and Asia. Comparisons on the basis of ownership, coordination, employment practices, and financial, human, and social capital can be made of the two countries.
Labour markets may differ in terms of employment opportunities, the availability of skilled labour and the ease with which people can change jobs.
HR Management will be affected by the degree of government intervention in business activities, laws related to employment and costs of social security or taxes imposed by governments on employers and employees. Examples of these differences could be researched and also included in the answer.

4. Why is it important for an IHR manager to understand a country’s stage of development?

The stage of development of a country is an essential aspect of knowledge required by IHR managers who might be sending expatriates to work in that country. As countries develop to become knowledge based economies their governments need effective institutions and may opt for more or less investment in education and training, which are essential for competitiveness. These are important for expatriates who will have to supervise locally educated employees. Factors which IHR managers need to be aware of, in order to inform expatriates, are government incentives or controls on investment, transparency and levels of corruption, and the level of technology available including internet access. Other important issues are the cost of living (knowledge required for working out salary and benefits); the availability of facilities such as good housing; hospitals; schools; food; and entertainment. Personal safety issues, requiring warning or additional protection for the expatriate, also need to be assessed.

5. Why does an IHR manager in charge of expatriate appointments need to know about the cost and quality of living of a country? Which HR policies will enable these aspects to be managed?

The IHR manager needs to know about the cost and quality of living in a country to be in a position to inform potential applicants about the conditions of the job. HR policies related to remuneration and benefits, and performance management, as well as training, are all linked to these issues.

The HR manager must be able to give a well informed and honest description of the country where the expatriate is being sent. Information includes the cost of living and quality of life, housing and school facilities available. The needs of a spouse also have to be taken into account in overseas appointments, as the adaptation of the spouse will be critical for the success of the assignment.

The remuneration and benefits must be worked out so that the expatriate does not lose out in comparison with peers, and any hardships faced must also receive compensation in the form of hardship allowances, home leave, or whatever is acceptable.
Appropriate pre-departure cross-cultural training must be provided, so knowledge of the country, its culture and way of life are provided. Performance management activities will also contribute to the process of ensuring the expatriate is appropriately rewarded throughout the assignment.

6. Why is the ‘ease of doing business’ in a country a significant factor when considering the performance of an expatriate? Support your answer with specific examples.

The ease of doing business in a country considers factors such as legal restrictions, protectionism and corruption. Other aspects of business such as obtaining construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts may result in delays. These factors make it difficult to market goods and services. Such issues may make it difficult for expatriates to achieve targets set by HQ, which is not familiar with the situation on the ground. (See World Bank 2010) Consideration of these factors must be included in the performance appraisal.

7. Explain some of the key differences that exist within Europe in terms of employment conditions. What effect might these have on MNEs and their expansion plans?

European countries have different historical contexts, and levels of development, so that the entitlement for annual leave and salary costs and redundancy payments are quite different (p111). Depending on the reason for the expansion plan, an MNE may invest in a country with cheaper wage environments. However, investors need to be aware of local laws with respect to contracts, equality, quotas and age-related retirement laws. At the same time, moving production from one country to another cheaper one may result in accusations of social dumping, if employees lose jobs in one country while others benefit by obtaining employment.

MNEs have to thoroughly investigate all aspects of the law before making decisions to expand into another country.

9. To what extent can institutional theory be used to evaluate the HR policy decisions of MNEs?

Institutional theory attempts to explain HR policy decisions and the multiple factors which influence them. We can use the ideas from institutional theory to try to unravel the numerous institutional factors which impact on an organisation’s behaviour.
MNEs are embedded in multiple evolving institutional systems. We can evaluate an HR policy in terms of the institutional pressures and isomorphic pressures which impact on its development. There are multiple drivers which determine the MNE’s choice of HRM policies and practices. MNEs face global competitive pressures, national institutional pressures and internal processes of strategic choice and competitive differentiation. As a result MNEs may choose different patterns of adoption, adaptation or innovation. Other research similarly shows that MNEs face conflicting theoretical perspectives. Similarities in approach may be influenced by ‘best practice’. Differences in approach are led by internal competitive processes, such as the corporate strategy, structure or culture. (See pages 114-116)

10. International Mergers and Acquisitions provide particular difficulties for HR managers. Given the range of ideas presented in this chapter, which HR practices might be most influenced by institutional differences? To answer this question, consider two countries you know well.

HR practices which may be affected by institutional differences include:

Diversity attitudes and laws related to equality of opportunity in recruitment;
Training opportunities and promotion;
Working hours legislation;
Compensation, benefits affected by taxation and social security deductions;
Redundancy legislation and payments;
Legality of membership of trade unions, recognition of unions for bargaining and employers’ associations.

Answers should include specific examples from two countries.