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THE INTERNATIONAL SIDE OF HUMAN RESOURCE MANAGEMENT

Revised Chapter 18 of
Human Resource Management:
An Economic Approach

by
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Chapter 18: The International Side of Human Resource Management

Although the U.S. has been a major player in world trade and investment since the end of World War II, public awareness of that external role was dim until the 1980s. During the early 1980s, a substantial increase in the volume of imports, and lagging performance of U.S. exports, raised the level of consciousness substantially. Consequently, much of the discussion of the need to be "competitive" which occurred revolved around competition <u>with other countries</u>. The idea that the economy had been "globalized" came into vogue, with implications for human resource management.

Similarly, in the 1990s developments abroad heightened awareness about the implications of American human resource practices for economic performance. After a decade of high unemployment, some Western European nations viewed American labor market "flexibility" as a key to lowering unemployment. On the other hand, the European Community nations were increasing their integration, raising fears in the U.S. about being shut out. There was also concern about whether America was losing out in opportunities to trade with the former communist countries of Eastern Europe and the emerging market orientation of (still) communist China. At the same time, the possibility of integrating the American economy with Mexico caused nervousness in the U.S., and in Mexico, about job displacement.

As is often the case when topics become "hot," short term trends become the focus and apocalyptic visions prevail. It became fashionable in the U.S. during the mid 1980s to place the blame for America's international competitive problems on deficiencies in management generally and on human resource management in particular. This chapter will stress that the foreign sector difficulties which developed in the 1980s and persisted in the 1990s were largely the result of forces beyond the control of management. But it will also note that over the long term, human resource management cannot be insulated from international pressures. Indeed, some of the major changes taking place in the employment relationship in the U.S. can be linked to the foreign sector.

I. An Alternative to the Comparative Approach.

There are two ways of looking at the human resource aspects of the international economy. One is to compare American human resource practices with those abroad. The insights thus gained have two values. First, they point to the fact that there are alternatives to standard American practices. In other countries, things are done differently. Thus, those human resource professionals seeking "new" ideas to apply in the U.S. might well find them abroad. Second, international insights are of use to American human resource professionals employed by multinational enterprises who need to know just how human resource matters are normally handled in particular host countries. Failure to understand local customs and expectations could produce unfortunate results.

One approach, therefore, in reviewing the international aspects of human resources is to take the so-called comparative view. Some general human resource texts include a chapter which attempts to take their readers on a world tour, going country by country and describing the key features of human resource policy in each. Others go on a topical tour instead; they take up particular issues, e.g., job security, and then compare in detail how various countries deal with those questions.

Unfortunately, while the traditional comparative approach has great value, it cannot be adequately undertaken in a single chapter. The American system alone has taken up the bulk of this text; how much justice in coverage could be done to all the human resource practices found around the whole world in a few pages? Thus, it is best to leave the comparative approach to separate texts and courses devoted exclusively to that topic.[1]

This chapter instead will first take up those aspects of foreign human resource practice which often differ markedly from the U.S. However, a detailed country-by-country approach is not attempted. Following that discussion, the chapter will turn to the impact of the international sector on U.S. human resource management.

II. A Checklist of Variations from American Practices.

Economic forces have been stressed throughout this volume as explanations of human resource policy. Although these forces exist universally, the social, legal, and political systems of different countries have produced variegated responses. A nation's stage of economic development is also an important human resource determinant. Clearly, human resource practice in a third-world economy with a semi-literate, impoverished population is going to be quite different from found in a developed economy with a high standard of living and an educated workforce.

For American-oriented human resource professionals, four areas of difference in foreign practice are likely to stand out when compared with the U.S. These are: 1) the role of unions and collective bargaining, 2) the degree and style of economic regulation of the labor market, 3) the provision of social insurance and benefits (such as health insurance and pensions) and 4) social expectations about the nature of the employer-employee relationship. A brief discussion of each is provided below as a checklist for American managers who may be embarking on international careers. Listed are human resource areas that need attention because the foreign responses to them cannot be assumed to follow American practices. They are thus potential pitfalls for managers and human resource professionals who have had experience and training only in the U.S. context.

i. Unions and Collective Bargaining.

As has been discussed in earlier chapters, American unions have represented a declining fraction of the U.S. workforce since the mid 1950s. Although dramatic strikes still can provoke newspaper headlines, the degree of public attention to unions and collective bargaining issues has generally waned. Yet at earlier points in American history, especially during the 1930s, union-management relations were an explosive area, eventually triggering substantial government intervention in the form of the Wagner Act of 1935 and its subsequent modifications.

In most developed countries, including Japan, the trend to lower unionization rates is also apparent, at least in private employment.[2] But in some countries at an earlier stage of development, such as South Korea and Taiwan, unionization is expanding and industrial unrest is a concern.[3] Unions played a major role in the emergence from communism of at least one country - Poland. And they are likely to be important in another country undergoing profound political change: South Africa.

Box A on Solidarity in Poland

Unions and Politics.

In some countries, union-management relations are still a central arena of social tension and government involvement. Although American unions involve themselves in politics, it is often the case abroad that the local union movement or movements are heavily involved with political parties which may sometimes control the government. Labor parties in Britain, Australia, Israel, and the Scandinavian countries are examples. The result may be a governmental climate which actively fosters unions when the labor-affiliated party is in control. But sharp oscillations in public policy towards unions can occur when elections bring in new governments in such countries. Thus, the election of the Conservative Thatcher government in Britain led to an adverse climate for unions there in the 1980s, after a period of union growth in the 1970s.

There can also be tension within "labor" political parties between the unions which fund them and the professional politicians which run them. In the 1980s and 1990s, these tensions sometimes focused on the wave of interest in privatization and deregulation. Unions in the affected industries typically oppose such moves, fearing adverse effects on pay and job security. But in countries such as New Zealand, labor governments have sometimes instituted

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Box A

Solidarity in Poland

One of the most remarkable episodes in the demise of communism in Eastern Europe occurred in Poland. Although communism ideologically was viewed as the creation of a workers' state, communist Poland experienced periodic labor unrest aimed at the ruling authorities. In 1980, major strikes began at the Lenin shipyards in Gdansk, which led to the formation of an independent trade union, Solidarity. The government eventually reached an agreement with Solidarity, which had come to represent 9.5 million workers. But late the following year, the government imposed martial law and arrested Solidarity's leadership, including Lech Walesa, an electrician who had become leader of the Solidarity movement.

In 1989, with communism collapsing in other parts of Eastern Europe - and with the threat of a Soviet invasion removed - an accord was reached for the formation of a democratic government. Solidarity-endorsed candidates swept the parliamentary elections, and Walesa became president of Poland in 1990. However, as the country began the painful adjustment to a market economy, Solidarity - as a labor union - often opposed government actions which threatened unemployment or declines in real wages.

Source: "Poland," World Almanac: 1992 (New York: Pharos Books, 1991), p. 794; and other sources.

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such market-oriented reforms over the objections of their union constituents.

Unions abroad often have a more left-wing orientation than American unions. Despite the fall of communism in Eastern Europe, foreign unions in non-communist countries such as France may be affiliated with the local Communist Party or other radical groups. But foreign unions may also be linked to religious communities, such as the Catholic Church. Their agenda may encompass wide-reaching economic, political, and social change, not just current relations with particular employers. While there have certainly been radical elements in the American labor movement, on balance there has been a greater focus on workplace issues and lesser attention to social transformation in the U.S. than in many other countries.[4] These differences in orientation can influence the quality of the labor-management climate which human resource professionals must face.

Union Suppression.

In countries where authoritarian regimes prevail, independent unions are often suppressed or discouraged. Membership in - and employer recognition of - government-controlled unions may be encouraged or required. A mix of motivations is involved, or at least cited, in such circumstances. The government may hope to prevent independent unions from arising as sources of political opposition. And it may point to alleged needs of economic development - especially in the case of third-world countries - as a rational for keeping tight control on union activity.

For example, strikes or too-high wages might be said by the authorities to have a potentially adverse effect on exports or the rate of growth, or on general economic welfare. Such arguments have been made around the world - often as part of a larger view that multi-party democracy and other human rights are "luxury goods" for which the population will have to wait. In some cases, however, lack of such rights has become an element of trade friction between the U.S. and its import suppliers. Human rights activists abroad and in the U.S. see access or non-access to the American market place as a lever to loosen authoritarian practices. Import-competing industries in the U.S. see human rights violations abroad as a tool to obtain protection against foreign competition.

Lack of Exclusive Representation and Contracting.

The American/Canadian system of representation by exclusive bargaining agents, and of long-term contracts, is not generally found elsewhere in the world. In many nations, more than one union may represent a group of workers, sometimes leading to rivalry and competition between the organizations. Craft-based unionization may be more common than in the U.S. in some countries, so that an industrial unit is represented by several occupationally-oriented unions. There may be informal local bargaining through a shop steward representing the different groups, while the national unions engage in company or industry-wide bargaining.

In the U.S./Canadian system, the outcome of successful bargaining is a legally-enforceable written agreement, typically of 2-3 years duration, between the employer and the exclusive representative. Obtaining such an agreement in countries where multiple unions are involved can be more difficult. In any case, American-style long-term agreements are much less common abroad. And contracts will not necessarily have the same legally-enforceable status that they do in the U.S. Agreements effectively come to an end when new unions demands are made.

Systems of Extension.

Unions abroad may directly influence the wages of employers with whom they have no formal relations. In some countries, once settlements are reached between major employers and unions, the agreements are "extended" by law to other employers. The extension system tends to insulate union workers from competition of nonunion employees, since the latter's wage is geared to the union sector through the extension process. Perhaps the most extreme variant of extension is to be found in Australia, where a system of compulsory arbitration through special labor courts sets wages and wage adjustments for most workers, whether or not their firms are organized by unions.[5]

Systems of Worker Representation.

Representation of employees in company decision making is sometimes required by law through elected plant-level "works councils" or through worker representatives on company boards ("co-determination"). In principle, any worker might be elected. Often, however, unions will run slates of candidates for positions of representation. Thus, through works councils or co-determination systems, unions may have an alternative means of interaction with management. Such arrangements are particularly advanced in Germany and there is pressure in the European Community to expand the co-determination/works council idea to EC countries which do not already have them as part of a wider agenda for a "Social Europe."[6]

The closest the U.S. has ever come to government-sponsored or encouraged representation plans was the stimulus given by federal authorities to establishment of employee representation plans during World War I. Such arrangements were never mandated, however; just encouraged. During the 1930s, employer-sponsored employee representation systems (so-called "company unions") were outlawed by the Wagner Act.

Thus, the U.S. moved away from any form of employee representation, other than through collective bargaining, while other countries adopted a more mixed approach.[7] Only in the 1980s and 1990s, with the growth of interest in employee involvement, has alternative representation been discussed in the U.S. And, of course, such arrangements are neither mandated, nor fostered by, American law.[8] Indeed, as we have noted in an earlier chapter quality circles and employee involvement teams may in some cases violate U.S. labor law.

Centralization and Incomes Policy.

Certain countries have evolved systems of highly centralized bargaining in which national pacts are negotiated by top union and employer associations - sometimes with government involvement - and then implemented in a widening pattern at the industry, firm, and local plant level. Centralized bargaining has often been linked with attempts by government to hold down wage increases for anti-inflation motivations. These attempts have often been termed "incomes policies" (generally a euphemism for "wages policy"). On occasion they are also known as "social accords," a phrase which generally implies a government-union-employer deal covering areas such as taxation and social insurance as well as anti-inflation wage guidelines.[9] Generally, such approaches tend to recede during periods of low inflation and resurface when inflation accelerates.

Centralization of bargaining means more than just having a central organization of unions such as the AFL-CIO in the U.S. It also implies that the central body has significant authority over its constituent unions. Such authority - for example, the right to represent them in negotiations - has never been given to the AFL-CIO by its member unions. It has been argued that foreign centralized union federations, which are needed for incomes policies and accords, are encouraged by economic climates of export dependency. In such climates, the general need to maintain competitiveness focuses attention on overall economic welfare and away from employer-by-employer bargaining.[10]

Internationally Coordinated Bargaining?

At the international level, there have been attempts by unions in different countries to coordinate their negotiations with multinational corporations, a transnational variation on centralization of bargaining.[11] There are a number of "international trade secretariats" - confederations of national unions in particular industrial sectors - which in some cases have acted as forums for such coordination. An example is the International Metalworkers' Federation, an organization which covers such industries as automobile production.

Box B on BASF dispute

Box B

The BASF Dispute

In 1984, a lockout of workers represented by the Oil, Chemical, and Atomic Workers union (OCAW) occurred at a BASF Wyandotte Corporation chemical facility in Geismar, Louisiana. The union had rejected an employer offer containing a wage freeze and other concessions. After the plant continued to operate with replacement workers, OCAW began a campaign aimed at the company's German parent, BASF AG. The campaign included contacts with German politicians and publicity. Allegations were made about environmental conditions at the plant to enlist support from Germany's Green Party.

Ultimately, a settlement was reached in 1989. However, it is difficult to sort out the influences of the various tactics applied by the OCAW. Environmental issues were raised in the U.S. as well as Germany and litigation arising out of the dispute was also a factor.

Source: "OCAW Members Ratify Pact at BASF Ending Five-Year-Old Labor Dispute," Daily Labor Report, December 20, 1989, p. A7; and related sources.

In theory, from the union perspective, bargaining strength could be enhanced vis-a-vis a multinational employer if all unions around the world who dealt with it coordinated their demands. The firm would be unable to shift production to non-striking facilities or to low wage plants. But there are very strong practical barriers to such international coordination. After all, union are not always able to coordinate their bargaining effectively <u>within</u> countries. At the international level, there are hurdles to overcome of divergent interests, ideology, legal systems, and language.

Thus, claimed successes in achieving true coordinated international bargaining have often been treated with skepticism.[12] Union interests and ideologies may diverge across international boundaries, making coordination very difficult. However, in cases where countries are in close economic union, e.g., the European Community, unions may be able to bring pressure on multinational firms operating in more than one of the member states.[13] Indeed, there has been growing concern among unions in the EC over the need for stepped up cooperation as national markets are integrated.

<u>Employer Attitudes</u>.

It is often said that in most countries where independent unions are permitted, aggressive American-style anti-union campaigns by employers are discouraged by the prevailing social milieu.[14] In countries with a more radical history of unions and politics than the U.S., such anti-union tactics are not adopted, in this view, because employers prefer accommodation to confrontation.[15] These employer attitudes may be changing, but there is still truth to the notion that harsh conflict over union representation rights is generally less visible in other western countries than in the U.S.

Foreign employer attitudes and strategies are not fixed in concrete. Just as the U.S. sometimes looks to foreign human resource practices for ideas, so foreigners sometimes follow U.S. examples. Anti-union resistance by American employers has been noted with interest abroad, and may spill over into other countries. U.S.-based multinational firms may in fact be exporting this aspect of American practice to other countries.[16] In any case, foreign firms operating in the U.S. sometimes follow union-avoidance practices similar to other American-owned firms in the U.S. which they may not follow in their home countries.[17] Overall, the unionization rate in manufacturing for foreign firms in the U.S. seems roughly in line with the overall American rate.[18]

Box C on Nissan election

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ii. Economic Regulation of the Labor Market.

Box C

The Nissan Election

Japanese "transplant" operations have become an increasing presence in the American automobile market. These facilities make "Japanese" cars at plants within the U.S. identical to those made in Japan. In some cases, the transplants have been joint ventures with the American "big 3" automobile companies and in those instances the jointly-owned plants have become unionized. However, transplants which are wholly Japanese owned have not become unionized. Executives of Japanese auto transplants have indicated a desire to remain free of unionization.

A closely-watched union representation election occurred in 1989 at the Smyrna, Tennessee plant of Nissan. Although the United Auto Workers (UAW) union put considerable weight on the campaign - seeing it as the doorway to winning representation rights at other transplants - its bid was ultimately rejected 1,662 to 711. That is, only about 30% of the ballots cast favored UAW representation.

Because wages at Nissan were high - especially in comparison with other Tennessee factories - the UAW made plant safety a major issue. However, at the time of the election, the U.S. economy was already beginning to slide into recession and layoffs were threatened at the big 3. In contrast, Nissan's Tennessee operations were expanding. Thus, Nissan workers had reason to be satisfied with the status quo.

Source: "Nissan, Bridgestone Subsidiaries in U.S. Take Opposite Views on Dealing with Unions," Daily Labor Report, January 9, 1990, p. A1; "UAW Suffers Resounding Defeat in Union Vote at Nissan Auto Plant," Daily Labor Report, July 28, 1989, p. A15; and related sources.

There are many types of government regulation of labor market in the U.S. including minimum wage and overtime requirements, mandatory provision of workers' compensation, occupational safety and health rules, etc. Counterparts of such rules exist in most developed countries - and (on paper at least) - in many third-world countries.[19] Indeed, the U.S. has pushed less developed countries which enjoy special tariff preferences in the American market to meet certain labor standards.[20] Whether in developed or in third-world countries, however, the forms labor market regulations take, and their extensiveness can vary widely.

Certain kinds of benefits, which in the U.S. are left to employer (or employer-union) discretion, are legally mandated in some countries, notably vacations.[21] There may be a greater preference for leisure in Western European countries than in the U.S. Survey evidence is suggestive of such a tendency.[22] Thus, it is not surprising that the political process responds by requiring leisure-related benefits.

<u>Public Enterprises</u>.

Government-owned enterprises are more common in many countries than in the United States. Transportation and utilities are often government run. But government ownership can also be found of mines, petroleum producers, automobile and metal manufacturing plants, broadcasting systems, and financial institutions. Where there is a significant sector of government ownership of commercial enterprises, human resource policies of the government-as-owner/employer may be imitated by private firms.

Thus, state influence on human resource practice can extend beyond formal legal regulation. The government may see itself in its employer role as setting an example for the private sector. Political swings between governments of the right and left may influence both the size of the state-run sector and the degree to which it is used as a pattern setter for private human resource practices. However, the trend in the 1980s and 1990s has been toward privatization, partly because state-owned enterprises may lose money and require subsidies, open or hidden (such as loan forgiveness). Within the EC subsidies to government-owned enterprises can now be challenged as unfair competition. Typically, government-owned enterprises are much more likely to be unionized than private firms.

Styles of Regulation.

Even where formal legal regulation applies to the labor market, the method of government-business interaction surrounding enforcement and interpretation is often different abroad as compared with the U.S. At the federal level, the American regulatory model is usually based on passage of a statute to be enforced by a board, commission, or agency with a system of appeals tribunals. Decisions of the enforcement body are also appealable into the general court system on a variety of grounds, ranging from proper statutory interpretation to constitutionality. The relationship between the regulated and the regulator is supposed to be "arms-length." Cozier relationships are often seen as signs of undue influence by the latter on the former or even as symptoms of outright corruption. At the very least, special deals by government for particular industries - even declining ones - are viewed as anti-competitive and inappropriate.[23]

Box D on non-application of U.S. EEO law abroad

The foreign model of labor market regulation (and economic regulation more generally) is less likely to be arms length. Indeed, it may be seen as a virtue to have close interaction between the regulator and the regulated, and there may be a long history of such relationships.[24] Deals and understandings may be reached between unions, employers, and government before new programs are enacted. Litigation and appeals are less common than in the U.S. Foreigners often look with wonder and incomprehension at the American regulatory system with its adversarial, arms-length approach, and its complex interplay of the executive, legislative, and judicial branches of government. The heavy use of lawyers in the U.S. for ordinary business dealings is often seen as surprising by foreigners.

Box D

Non-Application of U.S. EEO Standards Abroad

Discrimination on the basis of race, religion, and national origin was charged against ARAMCO, a corporation incorporated in Delaware but operating mainly in Saudi Arabia. Ironically, given the strict Muslim regime in Saudi Arabia, some of the charges involved discrimination against the plaintiff because of his Muslim beliefs by his (American expatriate) superiors. The plaintiff, Ali Boureslan, was originally recruited as a cost engineer in Houston, Texas, before being transferred to Saudi Arabia. He claimed his supervisor in Saudi Arabia ridiculed his Muslim beliefs and refused to allow him time off on Muslim holidays. Boureslan was eventually discharged from his job.

Boureslan filed charges with the Equal Employment Opportunity Commission (EEOC) and eventually also filed his own court suit - supported by the EEOC. The major issue became whether U.S. EEO laws could be applied to a corporation in connection with its foreign employment practices. In this case, the U.S. Supreme Court ruled that Title 7 of the Civil Rights Act could not be applied extraterritorially (outside the U.S.). It maintained that there was a presumption against extraterritorial coverage of U.S. laws unless Congress explicitly indicated an intent to extend such coverage, something the Court did not find for Title 7. Indeed, the Court found evidence in the statute of "a purely domestic focus."

Source: Equal Employment Opportunity Commission v. Arabian American Oil Co., 111 S. Ct. 1227 (1991).

Box E on limitation of EEO with regard to foreign firms in U.S.

Box F on EEO & Japanese employers in the U.S.

Labor Standards and the ILO.

An influence on government regulation in many countries is the Geneva-based International Labour Organisation (ILO). The ILO was created immediately after World War I as part of a general effort to foster international cooperation. After World War II, the ILO became affiliated with the United Nations. ILO member states are represented in tripartite fashion by union, management, and government delegations. The ILO makes recommendations for labor regulation and passes conventions concerning labor standards which member states may ratify.[25] It has no enforcement powers, but can conduct embarrassing investigations of abuses.

Box G on U.S. ratification of an ILO convention

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iii. Social Insurance and Benefits

Box E

The Right of Foreign Firms in the U.S to Pick Executives

Three former American executives of Quasar, a division of Matsushita Electric Corp., charged their firm with discrimination against them on grounds of age and national origin. Their case was tried in a federal district court and resulted in an award to them of $2.5 million plus attorneys' fees. A key issue when the judgment was appealed was whether a foreign multinational firm operating in the U.S., which discriminated in favor of nationals from its home country (and, therefore, against American nationals) could be charged under Title 7).

Matsushita used executives from Japan in finance and marketing on a temporary basis to oversee Quasar's performance. When the Japanese executives arrived, they instituted a corporate restructuring aimed at preventing a recurrence of past financial losses. Downsizing resulted in job losses and a freeze of American executive pay, but the expatriate Japanese executives were themselves retained and received pay increases.

Although the district judge ruled that illegal discrimination on the basis of (American) national origin had occurred, an appeals court reversed that decision. Technically, Quasar was an American firm, forbidden to discriminate under Title 7 against its employees. But the expatriates were in fact under the control of the parent company, Matsushita, even though they were on the Quasar payroll. Under the terms of a U.S.-Japan treaty governing multinationals, such firms have the right to use home-country nationals as executives. (Regarding the age discrimination charge, the court remanded the issue back to district court on technical grounds for two of the plaintiffs and dismissed the claim of the third.)

Source: Fortino, Myers, and Schultz v. Quasar, 950 F.2d 389 (1991).

Box F

EEO Charges Against Japanese Multinationals

Trade and investment frictions between the U.S. and Japan have heightened sensitivity toward charges of racial and other discrimination leveled at Japanese firms operating in the United States. In one case, a Japanese-owned employment agency (Recruit USA) was found to have used secret codes indicating race and national origin in making referrals to employers. However, the chair of the Equal Employment Opportunity Commission (EEOC) testified that available data indicate that Japanese-owned firms are no more likely to discriminate in the U.S. - based on charges filed with the EEOC - than comparable American employers. He did note, however, that in 1989 the Japanese-owned firms reporting to the EEOC had lower representations of blacks and Hispanics than other foreign-owned or domestic firms, but higher rates of Asian-origin employment.

Source: "House Hearing Probes Job Discrimination Against Americans at Japanese-Owned Firms," Daily Labor Report, July 24, 1991, p. A4; and related material.

Box G

U.S. Ratifies an ILO Convention

Although the U.S. has generally avoided formal ratification of ILO labor standards conventions, it did ratify one such convention dealing with the gathering of labor statistics in 1990. The convention commits the U.S. to the gathering of labor force data (employment, unemployment, wages, etc.) and other related information such as consumer price trends.

In the U.S. case, the convention is largely redundant because such data were routinely collected. However, ratification of the labor statistics convention could lead eventually to ratification of others.

Source: George L. Stelluto, "ILO Labor Statistics Convention: U.S. Accepts New Obligations," Monthly Labor Review, vol. 114 (June 1991), pp. 39-43.

Social insurance systems in some countries are more elaborate than in the U.S. Health insurance may be provided through a national medical system, for example. Special monetary allowances for large families may be paid. These arrangements may be linked to the workplace through payroll taxes. And their existence may influence the kinds of voluntary fringe benefits employers offer (just as the U.S. Social Security system influences the design of private American pension plans). But there are important differences between paying payroll taxes and actually administering benefit programs.

Multinational firms planning to locate abroad generally cannot maintain a consistent system of employee benefits across international borders because laws and customs vary so much between countries. Even investing pension plan assets across borders may create problems. Expatriate executives sometimes can be kept under their home plans for short periods. But generally knowledge of local practices is necessary to handle benefit policy. A number of major compensation consulting companies and financial institutions provide directories of national benefit arrangements.[26]

Health Insurance

Private health insurance in the U.S. is most often linked to the employment relationship. Employers who provide health insurance typically do more than send a check to some fund; they administer their programs and worry a great deal about health care cost containment. Human resource managers in American firms are conversant with HMOs, PPOs, managed care, and other devices of cost containment discussed in an earlier chapter. In contrast, European employers would not know an HMO from a PPO (and generally are grateful that they don't have to know!).

Because the American system of health insurance is so heavily based on the employment relationship with a particular firm, it creates anomalies and gaps in coverage. Not all employees are employed by firms which offer health insurance coverage. And to hold down costs, employers often seek to deny coverage to new employees who have (or whose dependents have) pre-existing illnesses. The result is so-called "job lock" which holds employees with medical problems to their current employer. Peculiarly, health insurance at the firm level in the U.S. has become a de facto human resource practice aimed at retaining sick employees! Another consequence is that much administrative effort is expended to try and push health care expenses to someone else's plan rather than holding down the expenses themselves.

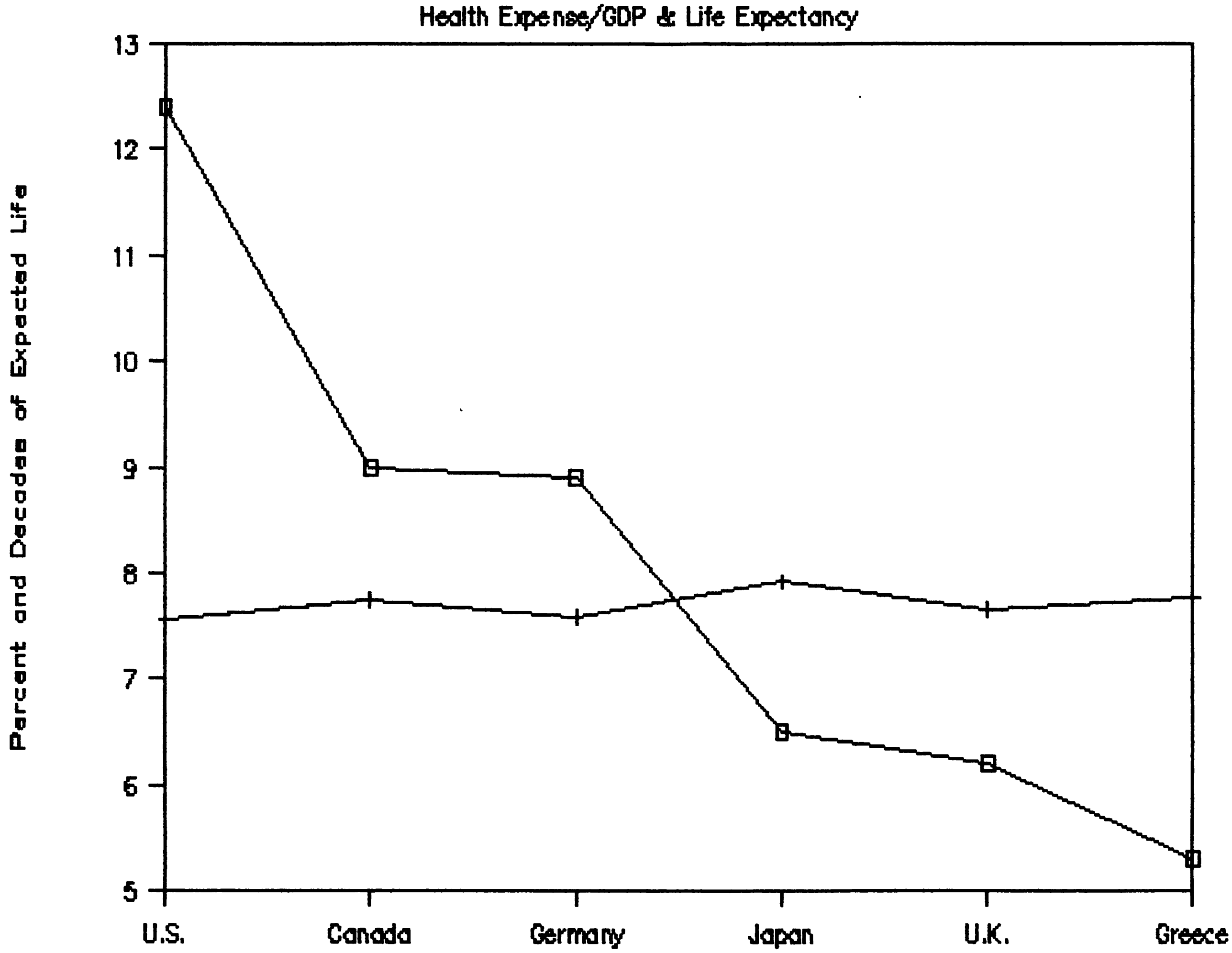
In contrast, although systems vary widely abroad, health insurance outside the U.S. is typically external to the firm, even if funded by payroll taxes. Coverage is near-universal and workers can change jobs (or lose jobs) without losing health care coverage. Like the U.S., containing health care costs is a problem in all countries. However, the decentralized U.S. system has not stood up well in containing costs and - as Figure 1 shows - has been an outlier when percentage of GDP devoted to health care is compared with other countries (or - even more - when per capita health care expenses are compared). Compared with the ultimate measure of effectiveness, life expectancy, the U.S. system seems no more effective than those found elsewhere, but at higher cost.

Health insurance became a major issue in the 1992 presidential election and it is likely that the U.S. system will be modified in coming years. However, the most probable outcome is that the role of the individual employer in administering the system will decrease as health insurance in the U.S. is supplied in a manner more similar to other countries. Although payroll taxes and/or employer-paid premiums may fund the system, over time it is likely to become externalized from the individual employer-employee relationship. And it is probable that there will be significant borrowing from foreign models - the comparative approach - as proposals for reform evolve.

Retirement Plans

Arrangement for pensions vary considerable across countries. All developed countries have some form of social security pension. If that system is generous, as in Italy, there is less scope for private pensions. Where private pensions exist, they may look

Figure 1



Note: National health expense/GDP refers to 1990; life expectancy refers to 1991.

Source: U.S. Bureau of the Census, Statistical Abstract of the United States: 1992 (Washington: GPO, 1992), pp. 824, 829.

somewhat like American plans. But there can be considerable differences.

Britain, for example, has defined benefit pension plans like the U.S., although its plans are more formally linked to the public social security system than in the American case. What France calls "private" pensions are - with a few minor exceptions - more like social security systems for large sectors of the economy. Germany has pension plans but these are often not pre-funded along British and American lines. In effect, they are promises by the firm to pay but may not have specific assets earmarked to meet the promise.

Box H on sex discrimination and EC pension rulings

As noted in an earlier chapter, defined-benefit plans use formulas which can become "golden handcuffs"; they make mobility costly as employees reach middle age. In some countries, however, attempts are being made to coordinate company pension plans so that workers can change jobs without losing big chunks of their retirement entitlement. Such arrangements are complicated; they typically involve a combination of low vesting requirements, interplan financial transfers when employees change jobs, and some means to take account of the impact of wage and price inflation on the eventual pension benefit. As yet, there has been

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Box H

Sex Discrimination and Pensions in the EC

Countries within the European Community (EC) have placed themselves under the jurisdiction of the European Court of Justice for certain purposes. In some instances, national practices regarding retirement incomes have come into question. For example, Britain's social security system has a lower age of eligibility for women than for men. Some private employers provided "bridging" pensions for those retiring before the official retirement age under social security. These pensions were larger for men than women, because of the uneven application by sex of the social security system.

In the Barber case, the Court ruled that uneven application of private pensions to the sexes was a form of sex discrimination, a decision which appeared to put British bridging pensions - often designed to ease the pain of downsizing - at risk. However, the Court's advocate general later issued an opinion making an exception for such bridging pension programs. However, other questions of sex discrimination regarding pensions remained unsettled. And the growing role of the Court in domestic social insurance policy highlighted the importance of EC-wide institutions in determining national policies.

Source: Norma Cohen, "Finance and the Family: When Inequality Rules," Financial Times, July 17, 1993, p. IV; and related sources.

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little done in the U.S. to facilitate mobility under pensions but a number of the EC countries are moving to make private pension rights more portable.

An alternative is to use a defined contribution approach for private retirement purposes and/or "personal pensions" (tax-favored savings accounts for employees similar to American Individual Retirement Accounts). The defined contribution approach is also possible for social security arrangements although it is less common there. However, Singapore uses a mandated, state-run defined contribution system as a kind of social security. And it views the system as a way of encouraging national saving.

Box I on personal pensions in Britain

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iv. Views of the Employer-Employee Relationship.

Throughout this text, the complex nature of the employer-employee relationship has been stressed. It has been noted that employee expectations of what the relation entails will condition the formation of human resource management policies. These expectations, however, vary from society to society. "Lifetime" employment contracts at larger firms with company-provided housing and social benefits in Japan are an expression of a particular set of expectations in that country. In the American context, Japanese

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Box I

Personal Pensions in Britain

Britain has a complicated two-tier social security system. The basic tier is a flat-rate scheme, paying the same pension amount to retirees regardless of their prior level of earnings. A second tier is more like the American model, which gears the pension amount to prior earnings. However, private employers can opt out of the second tier - many do - and provide a private pension at least equal to the public second tier program.

Under the Thatcher government in the 1980s, Britain enlarged the concept of opting out. Individuals could opt out either of the second tier of social security or their employer's private pension plan, and elect instead to have an employer-paid personal pensions. Such personal pensions - similar to American Individual Retirement Accounts - are essentially tax-favored savings arrangements. They are offered by a variety of financial institutions.

The popularity of personal pensions was higher than anticipated, in part because an initial subsidy was offered to encourage them. By 1990, over 4 million British workers had such arrangements.

Source: Daniel J.B. Mitchell and Jacques Rojot, "Employee Benefits in the Single Market" in William Dickens, Lloyd Ulman, and Barry Eichengreen, eds., Labor and an Integrated Europe (Washington: Brookings Institution, forthcoming).

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practices are often viewed as excessively paternalistic.[27] Thus, Americans seem to vacillate between praising all things Japanese and publicizing "exposés" of deficiencies in Japanese human resource management practices.[28]

Box J with composite ad on TQM, etc.

Job Security.

One of the most sensitive issues surrounding the employer-employee relationship is the question of when that relation may be terminated by the employer. An earlier chapter has reviewed the gradual erosion of the "at will" doctrine in the U.S., the legal doctrine that employees may be terminated for good, bad, or no reason at all. But many countries place legal restrictions on both individual terminations and layoffs that go far beyond recent American court interpretations. And, as Table 1 shows, the durations of employment with a single employer experienced abroad are often longer than in the U.S. If it is assumed that the surveyed workers on the table are roughly half way through their current spells of employment, then a typical completed spell in Japan would be well over two decades compared with 13-14 years in the U.S.

Box J

Since the 1980s, advertisements such as the composite shown have been widely received by human resource managers.

TQM/EI TRAINING, INC.

TOTAL QUALITY MANAGEMENT

AND

EMPLOYEE INVOLVEMENT

One Day Seminars

One Week Training for TQM/EI Leaders

Now Your Company

Can Take Advantage of Proven

Japanese Productivity-Boosting

Techniques!

EMPLOYEE INVOLVEMENT

CONTINUOUS IMPROVEMENT

AUTONOMOUS WORK TEAMS

***

It doesn't matter what line of business
your in! Our programs
will motivate your employees,
increase quality,
and raise productivity!

Call us for the Seminar
Schedule in Your Area

1-800-555-1400

Table 1

Mean Tenure with Current Employer: Selected Countries, 1989-91
(years)

Country	Average Length of Job Tenure at Current Employer
United States	6.7
Australia	6.8
Holland	7.0
Canada	7.8
Britain	7.9
Switzerland	8.8
Spain	9.8
France	10.1
Germany	10.4
Japan	10.9

Note: The job tenures listed are "interrupted spells," i.e., most workers will continue in their current employment and, hence, ultimately experience a longer tenure (completed spell) than reported on the table.

Source: "Musical Chairs: Will a Less Secure, More Mobile Workforce Be a Less Skilled and Hence Less Productive One?," Economist, July 17, 1993, p. 67, based on OECD data.

Foreign employers may be held to a standard for discharge similar to the "just cause" notion applied by American arbitrators in interpreting union-management agreements. There is a long tradition of specialized labor courts abroad which hear appeals from terminated employees who allege that the local version of just cause was not present in their cases.[29] Monetary damages for, or possibly reinstatement of, discharged workers may be ordered by these courts in cases of improper firings.

Restrictions on economic layoffs also can apply.[30] Firms may be required to provide long notices and to award substantial severance pay before layoffs are permitted. They may be required to notify their works councils and come to some agreement with the councils before undertaking mass layoffs. Government policy to discourage layoffs may operate through both legal restrictions and through a "frown." That is, employers may be aware that the government would be unhappy about massive layoffs, even if the layoffs are technically legal. Foreign-owned multinational firms must be especially sensitive to the views of host governments - and local public opinion - and thus are vulnerable to regulation by frown.

Box K on Hoover job shift in Europe

<u>Pressures for Flexibility</u>.

Box K

The Job Vacuum

As economies within the European Community (EC) have become more integrated, there have been fears expressed of job losses due to plant relocations. Hoover, the vacuum cleaner manufacturer, found its decision to close a plant in Longvic, France and move the jobs to another plant in Dundee, Scotland, to be a major political issue in France. The French prime minister accused the firm of "social dumping" and demonstrations were held.

At the same time, however, workers from a Dundee plant which was being closed by Timex, and replaced by a French operation, were holding similar demonstrations. Jobs were moving in both directions.

Source: "France: Dundee Timex Workers Protest Outside Besancon Plant," Les Echos (Reuter Textline), July 15, 1993; "France: First Phase of Redundancies at Hoover's Longvic Plant," Les Echos (Reuter Textline), July 2, 1993).

In the face of declining labor demand, an anti-layoff policy can reduce unemployment initially. But it also tends to protect the job of "insiders" (those who already have jobs) at the expense of "outsiders" (new entrants to the labor market) who are seeking work.[31] In addition, employers may be more reluctant to hire permanent workers if such hiring entails a potentially-costly indefinite obligation. Effectively, it has been argued, the job guarantee may act as a "tax" on new hires and unemployment may paradoxically result from policies designed to prevent it.

But the net effect of anti-layoff policies is complex. First, they do keep insiders employed who might otherwise become unemployed. Second, some of the implicit tax may be absorbed by workers in the form of lower pay. Third, employers may find ways to cushion the impact of the restrictions. For example, use of work sharing, i.e., reduced weekly hours during recessions, can allow employers to reduce their employment of labor time without reducing the number of employees.

Certainly, one possible result of tough anti-layoff rules may be increased use of contingent workers - part timers, temporaries - who do not receive job security guarantees. Sometimes government policies may also seek to control use of temporaries, disparagingly called "atypical" workers in the bureaucratize of the EC. But employers may also do more subcontracting of work to small employers or to foreign suppliers who are outside the bounds of legal regulation. Increases in "off-the-books" employment, a hidden economy which escapes rules and taxation, may occur as well.

As unemployment rates rose in many countries during the 1980s, concern was heightened about the ability of local employers to adjust to changing patterns of market demand. Often, the debate fell under the general heading of "flexibility" or "adaptability" in HRM.[32] Interestingly enough, a political consensus over the desirability of such flexibility developed, often regardless of the political coloration of the government in power. As a result, some restrictions on employer ability to layoff or redeploy resources were relaxed.[33] Governments with a more "liberal" political orientation (using the American definition of that term) were more likely to insist that the needed flexibility should be obtained through retraining of redundant workers (possibly with state subsidy of the training) than were conservative governments.

iv. Information Sources.

It should be evident to the reader that American human resource policies and practices cannot uniformly be transplanted to foreign soil. Successful implementation of human resource policy requires knowledge of the local legal, political, and social system, as well as economic conditions. Human resource professionals in large, multinational enterprises keep themselves abreast of national institutions, developments, and economic trends in the countries in which their firms have operations. A variety of data and information sources are readily available as indicated on the accompanying exhibit.

Box L on sources here

Official institutions such as the Organisation for Economic Cooperation and Development (OECD) and the International Labour Organisation put out publications providing country-level and comparative reviews of trends relevant to human resource management. So does Eurostat, the statistical arm of the European Community.[34] The U.S. Department of Labor can be a source of useful information. American embassies abroad have commercial and labor attaches who keep up with current events in the human resource area. Foreign embassies and consulates in the U.S. may be helpful.

There are also private reporting services which provide useful information. Noteworthy examples are the quarterly country reports published by the Economist Intelligence Unit. These reports contain general information on economic and political trends, including those affecting the employment relationship. Variations in national benefit practices are described in various periodic publications put out by management consulting companies and financial institutions such as Wyatt, Mercer, and Swiss Life.

Box L

Selected Sources of International Human Resource Data

International Labour Office of the International Labour Organisation:

Yearbook of Labour Statistics

Data on wages, employment, unemployment, work stoppages, occupational composition of the workforce, occupational injuries, inflation. Supplemented by the quarterly Bulletin of Labour Statistics.

U.S. Bureau of Labor Statistics:

Monthly Labor Review

Data for selected countries on manufacturing pay, output per hour, and unit labor costs. Labor force data on employment, unemployment, and participation based on American definitions. Historical data appear in the periodic Handbook of Labor Statistics and the Economic Report of the President.

U.S. Department of State Indexes of Living Costs Abroad

Estimates of the cost of living relative to Washington, D.C. in major cities of the world. Data are used to adjust U.S. government employees stationed abroad and could be used to adjust pay of employees stationed abroad by multinational firms.

International Metalworkers' Federation:

The Purchasing Power of Working Time

Wage comparisons in selected metalworking industries in terms of purchasing power.

Other Sources: Publications of the International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations, and other international organizations. The monthly European Industrial Relations Review provides comparative information on legal requirements, e.g., parental leave, as well as up to date information on developments and trends. Although it is a general interest magazine, the weekly Economist often carries articles and data of interest to general managers and human resource managers. The U.S. Department of Labor issues periodic profiles of labor conditions abroad for various countries.

Commercially-provided information is often expensive, but sometimes is made available for free for public relations purposes. Apart from commercial sources, foreign universities may have centers of industrial relations which put out reports on local human resource practices and developments.

III. The International Impact on Domestic Human Resources.

At an abstract level, it might be argued that the existence of a foreign trade sector has no particular implication for U.S. human resource practices. After all, the presence of a foreign sector just means that there are more markets to sell in, and to buy from. What difference does it make to a firm if the competition is from foreign or domestic sources?

But although competition in the product market is similar in its effects, regardless of source, the international sector does have a special impact. First, factor market conditions abroad - especially those related to the labor market - may be substantially different from those faced by domestic competitors. In particular, in many parts of the world, wages are only a fraction of American pay levels, when translated into U.S. dollars. Second, the degree of foreign competition which is faced can be importantly influenced by domestic policies - such as tariffs and quotas. Pure free trade is an abstraction; all countries follow so-called "commercial policies" which influence what they buy, and how much they sell, abroad. Generally, however, since the end of World War II, the world has been moving toward freer trade. The shift of Eastern Europe away from communism and the widening use of markets in communist China is continuing that direction.

i. The Economic Analysis of International Trade.

There are numerous textbooks available on international trade and it would be inappropriate here to attempt to duplicate their analysis.[35] However, the basic highlights of what might be termed "conventional" international economic analysis can be usefully summarized below:

1) The economic analysis of international trade usually begins with the assumptions that countries can trade goods (exports and imports), but cannot trade factors of production, i.e., labor and capital. Obviously, these assumptions are oversimplifications. Labor does flow across international borders in the form of legal and illegal immigration. Capital flows internationally, both in the financial sense (the purchase and sale of financial assets such as stocks, bonds, and bank accounts) and in the real sense (export and import of capital goods such as industrial machinery). Nevertheless, factor mobility - especially labor mobility - is more restricted across national borders than it is within them.

2) Given the factor-immobility assumptions, the pattern or structure of trade is determined by "comparative advantage." In the absence of factor flows, there is no absolute standard of value. What matters, in determining who exports what goods, is the relative cost of production. In a two-good, two-country model, if wheat is relatively cheap in the U.S. as compared with cloth, and if cloth is relatively cheap in the U.K. as compared with wheat, the U.S. will export wheat in exchange for cloth from the U.K. And the U.K. - as the other party to the transaction - will export cloth to, and import wheat from - the U.S.

3) Trade according to comparative advantage produces potential "benefits" for countries by relaxing a production/consumption constraint. In the absence of trade, anything a country wants to consume must be produced domestically. Trade opens up the possibility of consuming more of some goods than are produced at home (importing). To pay for the deficit of production the country produces more of other goods than are consumed and exports the balance. Countries can specialize in production according to their international comparative advantage, while consuming in accordance with their internal "tastes."

4) The lifting of the consume-only-what-you-produce constraint changes the pattern of production within countries. Some industries - those which enjoy a comparative advantage - find the demand for their products increased. Others - those with a comparative disadvantage - face a decline in demand and, possibly, a complete cessation of production.

5) The existence of international investment flows further relaxes the constraints in a dynamic sense. Countries can purchase more than they produce domestically and borrow abroad to finance their trade deficits. That is, they can import a greater value of goods than they export for a time. In exchange, however, they must eventually repay their debts (plus interest) by running an export surplus in a later period.

6) Since the possibility of international investment flows means that countries can run net export surpluses or deficits in any given period, the size of their foreign trade sector can vary relative to their domestic sector. That is, in periods of net export deficits (value of imports exceeding value of exports), those industries which produce exports or import-competing goods will shrink in size relative to those producing goods and services which cannot be internationally traded, e.g.,

haircuts. During periods of net export surpluses, the opposite will occur; the foreign trade sector will expand relative to other sectors.

7) By changing the pattern of production, trade has complex effects on internal income distribution. In the short term, wages, employment, and profits in particular industries may be increased or reduced by trade. And in the long run, the general prices of factors of production - including real wages - may be altered.

In short, although in some sense a country as a whole may benefit from trade, trade will produce both winners and losers in the economy. Contrary to the popular impression, economic theory does <u>not</u> predict that large subgroups in society - such as the labor force relative to the owners of capital - will necessarily benefit from freer trade. Particular interests may or may not benefit, depending on assumptions.[36]

8) Government policies, by modifying trade flows through tariffs, quotas, subsidies, and other devices, can influence the domestic structure of production, and, therefore, the distribution of income and the pattern of employment. Employers and employees are likely to have an

economic interest in how the government conducts its trade policies.

Added to the conventional analysis of international trade, new approaches arose, especially in the 1980s. Not surprisingly, there is controversy over the importance and interpretation of the new approaches. "Strategic trade theory" suggests that in some cases, especially where there are departures from perfect competition in the market place (including the labor market), governments may be able to influence trade flows in ways advantageous to national interests.[37] Where there are differentiated products and economies of scale, the general widening of markets through freer trade may provide benefits by allowing suppliers to achieve their scale economies. But there are sometimes seen to be "first mover" advantages; where economies of scale exist, a nation that starts an industry can achieve lower costs and come to dominate the world market.

One of the contentions of recent business research is the comparative advantage is not ordained, but is something that countries can make. So-called "competitive advantage" can be influenced by such things as investment in infrastructure and - in the human resource area - provision of quality education and training. Financial markets, according to this view, may produce short-sighted managers who do not sufficiently invest in their companies or employees.[38] A country with this problem - and the

U.S. is usually cited - proceeds to lose its competitiveness in industries which depend on such investments.[39]

ii. Trends in International Commerce and Labor Costs.

To understand the forces surrounding the international market place, the principles of economic analysis must be combined with knowledge of empirical trends and institutions. In that sense, the international setting is no different than the domestic. Thus, in order to provide the necessary background for analyzing the international impact on American human resource practices, some key trends are discussed below.

The Importance of Exports and Imports.

Compared with many countries, the U.S. has a relatively small international sector. Exports of goods and services accounted for less than 11% of American GDP in 1992. The U.S. import-to-GDP ratio was just over 11%. Some countries, especially smaller nations located within large trading areas, have much higher ratios.

However, the ratio of exports or imports to GDP does not fully measure the importance of trade to an economy. International prices, for example, can spill over into the prices of domestically produced goods. General Motors cannot ignore prices charged by

Toyota in setting its own prices. Pricing ability, in turn, is reflected in General Motors' human resource decisions on wages, new hires, and layoffs. Much of manufacturing, mining, and agriculture in the U.S. is affected by international trade, directly or indirectly, because of actual or potential foreign competition. These sectors accounted for about a fifth of all employees in 1992. Moreover, other sectors were involved in trade as suppliers to the trading sector or in the transportation and sale of exports and imports.

Multinational Enterprises.

Generally, the post-World War II period has seen a substantial expansion of trade and investment by virtually any measure. Of particular interest has been the growth of "direct investment," i.e., the establishment of subsidiaries of multinational firms around the world, as well as in the United States. U.S.-based multinational firms employed 18.5 million persons in the U.S. in 1992, and another 6.7 million abroad. Foreign-based nonbank multinationals employed 4.7 million, almost half of which were in manufacturing.[40]

The extension of multinational firms across national boundaries creates a channel of communication of human resource practices and strategies. While national differences in the human resource area are very important - as stressed in the previous section - the fact that single corporate entities operate in the face of different national systems creates potential for consideration of alternatives. It is always possible for a country to resist international pressures for conformity and uniformity - as the U.S. has resisted adoption of the metric system - but the pressure is present nonetheless.

Although studies of multinational firms generally do not indicate that they automatically import the human resource practices of their "mother" country, over the long run they may act as a transmitter of human resource techniques. Research on multinationals indicates that they often staff jobs which have a heavy "cultural content" - such as human resource management professional positions - with persons from the host country.[41] But even so, at the most general level, employers around the world face common problems of recruitment, screening, evaluation, training, pay setting, grievance handling, and productivity management.

If an human resource management approach appears to be effective in one country, there is reason to try that approach elsewhere. Perhaps the most prominent experiment in the U.S. along these lines has been the joint General Motors-Toyota automobile assembly operation in northern California which blends Japanese and American practices.[42] However, sometimes an attempt to export human resource practices meets with resistance, as the case of

Federal Express - found in the appendix to this chapter - illustrates.

Box M on Euro Disneyland dress code

The existence of multinational firms can sometimes be used by third parties to influence labor practices in foreign countries. Most notable were pressures on U.S.-based multinationals to adopt the "Sullivan Principles" with regard to their treatment of black employees in South Africa, before white rule in that country began to unravel. These principles were designed to assure as much opportunity for blacks as possible under the South African apartheid system. Suppression of student demonstrations in China led to general concerns about human rights in that country. The expansion of trade with China in the 1990s may eventually channel those concerns specifically into labor practices.

Box N on China and MFN status

Host countries may sometimes pressure multinational firms to adopt certain human resource policies as a condition for doing business. All countries expect multinationals to comply with local labor laws and regulations pertaining to the labor market and the employment relationship. However, especially in third-world

Box M

Dressing for Euro Disney

When Euro Disneyland began to hire for its new facility in France, it included a personal hygiene code in its hiring standards. Specifications were included for male haircuts and beards and mustaches were forbidden. Women were told not to use hair dye and "appropriate undergarments" were required. A video for job applicants suggested a daily shower or bath.

Although such standards are not unusual in the U.S., in France they were viewed as an infringement on personal liberty and sparked a debate in the press. The possibility of a conflict with French law which protects individual rights was raised. In the background was an ambiguous attitude about importing an American institution of popular culture into France, despite its favorable economic impact.

Source: "A Disney Dress Code Chafes in the Land of Haute Couture," New York Times, December 25, 1991, pp. 1, 48.

Box N

MFN Status for China

Despite the name, most countries enjoy "most favored nation" (MFN) status with regard to American import tariffs. A most favored nation is one that agrees to grant the U.S. any tariff reductions it grants to other countries (with certain exceptions) in exchange for similar treatment by the U.S. As a result of a long history of tariff reductions since the 1930s, American MFN tariff rates are much lower than those in the schedule applicable to countries without MFN status. In the period after World War II, the countries without MFN status were mainly communist nations; grant of MFN status to those countries came to be based on their political relationship with the U.S. and was often conditioned on human rights.

Communist China was granted MFN status but on a provisional basis. One of the early decisions of the Clinton administration was whether such status should be renewed, a matter of great concern with China whose exports to the U.S. market were growing rapidly. In May 1993, President Clinton extended China's MFN status for one year conditioned on human rights progress and other matters such as use of prison labor. It appeared that each such renewal was bound to be controversial, partly because China added more low-wage import competition to that already experienced by the U.S.

Source: Sheryl WuDunn, "China Denounces Terms of Clinton's Trade Deal," New York Times, May 30, 1993, Section 1, p. 12.

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countries, host governments may encourage the promotion of nationals into key management roles. They may also seek training and skill acquisition for the nonsupervisory workforce.

Box O on import Japanese practices by Unipart in U.K.

Exchange Rate Fluctuations.

One of the sharp differences between the domestic and the international setting is the presence of nationally-based monetary systems. American firms, operating within the U.S., utilize a common dollar standard. They have no need to worry about fluctuations of, say, the "California dollar" versus the "Ohio dollar." Only one currency is used in all parts of the U.S. Firms operating across international boundaries, however, face very different monetary conditions.

At the international level, separate currencies are in employed in almost every country. From the end of World War II until the early 1970s, most countries maintained fixed exchange rates relative to one another, under the so-called Bretton Woods system.[43] The exchange rate between, say, the U.S. dollar and the British pound was not allowed to deviate, except in a very narrow range, from an agreed-upon par value. Changes in the official par values of currencies occurred only at infrequent intervals.

Box O

Japanese Practices in a British Firm

Unipart, a company in Oxford, England, produced automobile parts but seemed to be suffering from outmoded plant and production techniques. The company's management might have simply closed the Oxford plant and concentrated on selling parts made by other suppliers. Instead, utilizing an indirect link with Honda, it sent some of its workers to Japan to observe production methods at a Japanese parts manufacturers.

When the workers returned, they pushed for a Japanese-style emphasis on quality, waste reduction, and team production. Initially, the returned workers were met with hostility by other employees and supervisors. However, they were permitted to set up a separate workshop in a corner of the plant and eventually acted in missionary style to convert the rest of the plant to the new approach. The firm reported cost reductions from employee suggestions and appeared to have improved its overall economic performance.

Source: "Unipartners," Economist, April 11, 1992, p. 67.

During the fixed exchange rate era, exchange rates were maintained at their official values by government intervention in the currency market. When a country's currency was in excess supply, and therefore tending to depreciate (fall in value) relative to its par value with the dollar, its monetary authorities would buy up the excess supply, using its own dollar reserves or by borrowing dollars externally.[44] Similarly, when a country's currency was in excess demand, and therefore tending to appreciate (rise in value), its monetary authorities would buy up the excess by selling dollars.

Although firms had to consider the possibility of occasional currency value changes, the fixed exchange rate system made trading in the international arena more like domestic trade. If currency values were fixed, then trade could occur almost as if there were one world currency. However, the fixed exchange rate system established after World War II broke down in 1971.[45] An attempt to resuscitate the system ended unsuccessfully in early 1973. Thereafter, no single international exchange rate system has developed. Exchange rates between currencies have generally been much more flexible since the early 1970s than before.

Since the breakdown of fixed exchange rates, some countries have attempted to "peg" their currencies' values to the dollar or another currency unilaterally. Attempts have been made to coordinate the exchange rates of some of the European Community countries (the European Monetary System) with the possible goal of creating a single currency within much of the EC. Some countries have followed a policy of pegging their currencies' values relative to a "basket" or average of other currencies, rather than to any one currency. Some have intervened in currency markets in an attempt to smooth out currency fluctuations. And others have left it largely to demand and supply in the currency market to determine their exchange rates; the U.S. has generally followed such a laisser-faire strategy, with occasional episodes of intervention. In all likelihood, these diverse exchange rate policies will continue to characterize the international monetary system indefinitely.[46]

The result of greater exchange rate fluctuations is a complicating of managerial decision making on where to produce, where to invest, and how to evaluate relative national labor costs. Many economists would argue that over long periods of time, the particular exchange rate system in use is irrelevant. According to this view, international trade and investment will be governed eventually by the "fundamentals" of comparative cost.

However, this view is naive;the long run may be a long time in coming. In the meantime, exchange rates are likely to be of concern to firms operating in the international market place. Indeed, a significant part of future pressure for labor market flexibility in the U.S. and elsewhere is likely to be the result of exchange rate changes. Even before the dollar reached its peak and then declined in the mid 1980s, there was evidence that the foreign exchange market is vulnerable to speculative swings and other instabilities.[47] The 1980s reinforced that conclusion.

Labor Costs and Exchange Rates.

In what in retrospect appears to have been partly a speculative bubble, the dollar began appreciating relative to other currencies after 1980. Economists have attributed the initial spark for this appreciation to federal tax cuts and resulting budget deficits.[48] The federal budget deficit was a form of national dissaving, which resulted in a sucking into the U.S. of net foreign saving. That is, Americans invested less abroad and foreigners invested more in the U.S. Net demand for the dollar (to acquire claims on the U.S.) rose, causing dollar appreciation, thereby putting American exporters and import-competing firms at a substantial disadvantage. But after a time, it appeared that the dollar was rising because past appreciation led the market to expect that more appreciation was to come.

When the dollar appreciated, American export prices - as seen by foreigners in terms of their currencies - rose. U.S. exports became less competitive on world markets and export performance deteriorated. From the American viewpoint, the prices of foreign imports fell - measured in dollars - stimulating a switch from

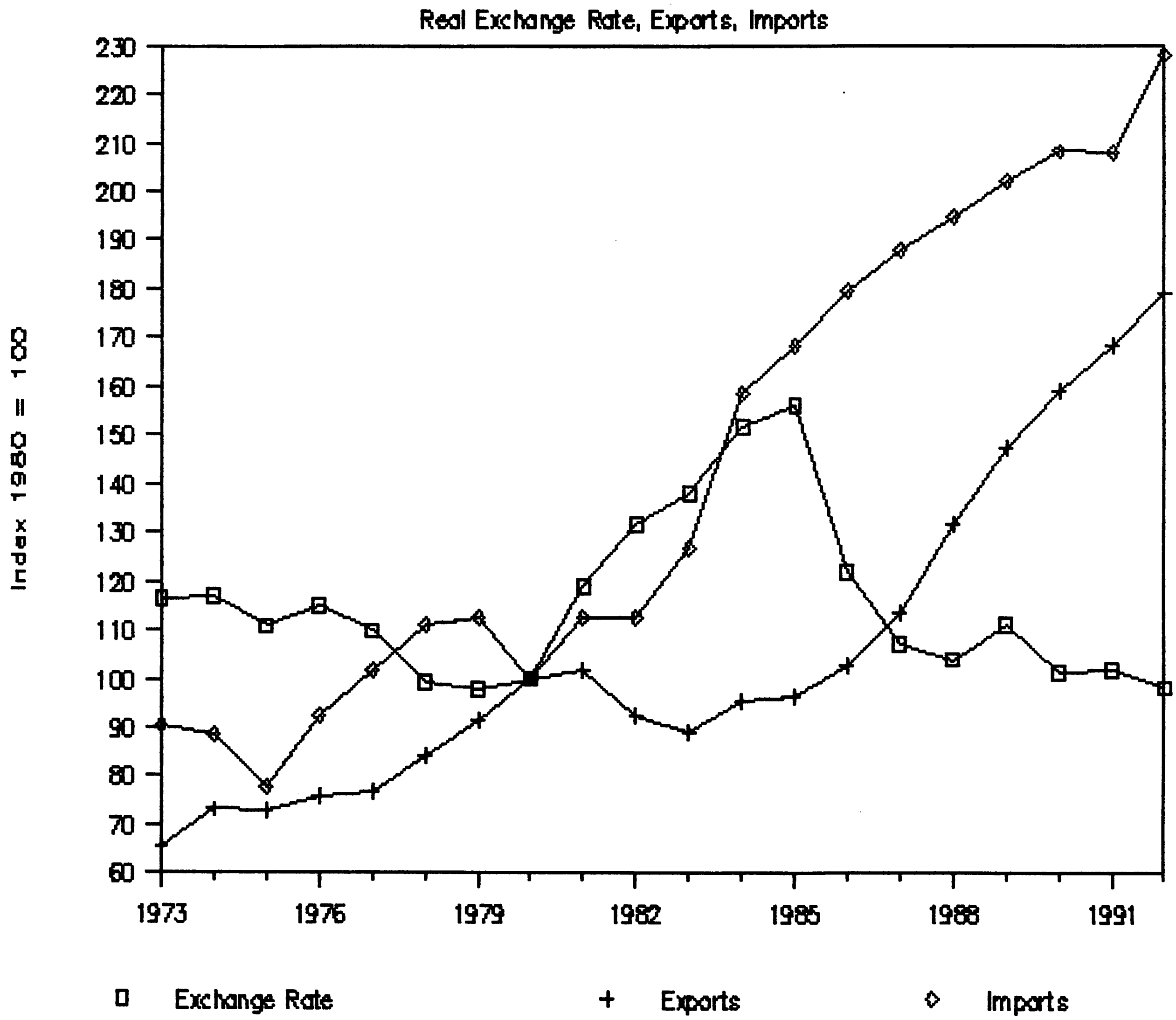
American products to foreign supplies. These trends can be seen on Figure 2, which illustrates the movements of real exports, real imports, and the real dollar exchange rate.[49]

Although the dollar reversed its upward course in early 1985, it had already sparked an ongoing debate concerning declining U.S. competitiveness and its human resource implications. Imports rose rapidly, and continued doing so even after the dollars appreciation reversed. Exports stagnated during the dollar's rise, then began to increase again as the dollar's real exchange value fell.

Table 2 illustrates the impact of the appreciation of the U.S. dollar on foreign manufacturing wages in seven countries relative to American wages. During 1979-85, American wages on a total compensation basis rose at 6.9% per annum, slower than the rate of wage inflation in five of the seven other countries as measured in their own currencies. But the appreciation of the U.S. dollar caused foreign wages, <u>when translated into dollars</u>, to rise more slowly than U.S. wages in all cases.[50] In fact, in three out of the seven cases, foreign wages actually <u>declined</u> in dollar terms.

This situation dramatically reversed when the dollar declined in value during 1985-91. The depreciating dollar pushed foreign wages measured in dollars up substantially. Wage inflation in the U.S. was quite moderate during this period, but the exchange rate dominated the relationship between U.S. and foreign wages.

Figure 2



Note: The real exchange rate is a weighted average of exchange rates of 10 currencies relative to the U.S. dollar, each adjusted by national trends in consumer prices. Exports and imports refer to goods and services in 1987 dollars.

Source: National income accounts; U.S. President, Economic Report of the President, January 1993 (Washington: GPO, 1993), p. 470.

Table 2

Exchange Rate Movements and Rates of Pay Change, Manufacturing, 1980-91, Eight Developed Countries

Country	Annualized Rate of Change, 1979-85		
	Wages in Local Currency	U.S. Dollar Per Local Currency Unit	Wages in U.S. Dollars
United States	6.9%	--	6.9%
Canada	8.7	-2.6%	5.9
Japan	4.7	-1.6	3.1
France	12.9	-13.2	-0.3
Germany, West	5.9	-8.1	-2.1
Italy	16.7	-14.9	1.6
Sweden	9.4	-12.1	-2.5
United Kingdom	11.2	-8.5	2.5

Country	Annualized Rate of Change, 1985-91		
	Wages in Local Currency	U.S. Dollar Per Local Currency Unit	Wages in U.S. Dollars
United States	4.0%	--	4.0%
Canada	4.9	2.8%	8.0
Japan	4.9	9.1	15.4
France	4.1	7.5	12.5
Germany, West	5.3	9.1	15.8
Italy	7.5	6.9	15.5
Sweden	8.0	5.7	14.5
United Kingdom	8.0	5.0	13.7

Note: Wages refer to hourly compensation of production workers including wages, benefits, and payroll taxes.

Source: U.S. Bureau of Labor Statistics, press release USDL: 92-752, December 2, 1992.

Wage movements by themselves do not give a complete picture of shifts in competitiveness. Costs other than wages also are relevant, although, of course, such costs also will be influenced by exchange rates. Even when the focus is on labor costs, wages must be adjusted for productivity - as described in an earlier chapter - to calculate unit labor costs. However, as Table 3 shows, during 1979-85 unit labor costs (the ratio of the wage rate to productivity) fell in all but one of the countries listed when measured in U.S. dollars. The dollar appreciation is again the principal explanation of this development. Similarly, during 1985-91, foreign unit labor costs rose rapidly relative to those in the U.S. because of dollar depreciation.

It is clear from Tables 2 and 3 that the loss of American competitiveness during 1979-85 cannot be attributed to some failure of U.S. human resource practices. Despite all of the breast beating about loss of the American work ethic, lack of labor-management cooperation, top-heavy supervision, and excessive American pay levels, the loss of U.S. competitiveness in that period was due primarily to macroeconomic forces: dollar appreciation and federal budget deficits. To burden American human resource managers and practices with the blame for rising import competition, is unfair and misleading. Similarly, it would be wrong to credit the increased competitiveness that appeared after 1985 to some startling human resource innovations.

Table 3

Trends Manufacturing Unit Labor Costs, 1979-91,
Eight Developed Countries
(U.S. Dollars)

Country	Annualized Percent Change in Unit Labor Costs 1979-1985	1985-1991
United States	4.9%	1.1%
Canada	3.4	7.8
Japan	-0.8	10.4
France	-3.4	9.3
Germany, West	-4.0	13.8
Italy	-3.3	12.2
Sweden	-5.3	12.9
United Kingdom	-2.0	9.3

Note: Figures refer to manufacturing production workers.

Source: U.S. Bureau of Labor Statistics, press release USDL: 92-752, December 2, 1992.

Overemphasis of short-term phenomena related to exchange rates diverts attention from longer range competitive issues which do have human resource implications.[51] For example, problems in the quality of educational output of America's high schools ultimately affect U.S. comparative advantage. But the impact is gradual. Those who are anxious to foster educational reform may be tempted, whenever the dollar appreciates, to point to their reforms as the remedy for the resulting competitiveness decline. But the problem with that approach is that what goes up comes down; the dollar can reverse direction as it did in the late 1980s and leave those who confused fundamentals with erratic swings looking foolish.

Relative Wages in the Long Run.

One of the long term issues which arises in the international area is the ability of American firms to compete when wages are substantially below U.S. levels in much of the world. Will American wages be forced down to foreign levels by international competition? This question can be viewed from both an analytical and empirical perspective.

Economic analysis of international commerce sees trade in goods and trade in factors of production as potentially equivalent. If labor and capital did flow costlessly across international borders, there would be a tendency for factor prices to equalize around the world. In particular, as labor moved from low wage to high wage countries, the average level of wages would be bid down in the latter and up in the former. Indeed, high wage countries often restrict in-migration to protect the wages of their resident labor forces from such direct competition.

Less obvious is the possibility that even without factor mobility, trade in goods could have much the same equalizing effect. If high wage countries import goods from low wage countries, labor from the low wage countries is "embodied" in the imports. The imports displace labor that might have been used in the high wage country to produce those goods in the absence of the imports. Thus, receiving goods from low wage countries is similar to receiving labor from them, in terms of the impact on the labor market.[52]

Consider, for example, the inflow of cheap Mexican labor into the U.S. Attempts by the U.S. to impede this flow have provided a stimulus for firms to set up assembly plants just inside the Mexican border, and then import the assembled products into the U.S.[53] In effect, if the people cannot come to the plant, the plant comes to the people. And if the people cannot be imported, the products that incorporate their labor can be. Of course, the reverse is also true; exports of U.S. goods can be viewed as an embodied export of U.S. labor.

Just as the Mexican border plant, or <u>maquiladora</u> program, substituted goods movement for people movement, the enlarged concept - the proposed North American Free Trade Agreement (NAFTA) between the U.S., Canada, and Mexico - has been viewed in part as a way of holding down illegal immigration from Mexico into the U.S. Indeed, the move in Mexico away from trade barriers and towards an open economy may produce that result, with or without a NAFTA. The concern in the U.S. has been that since trade with Mexico indirectly joins the U.S. and Mexican labor markets, the result could be a reduced demand for unskilled and semi-skilled labor in the U.S., since Mexico has such labor in abundance.

Although the argument is usually phrased in terms of lost jobs in the U.S., the long term result might be a reduced wage at the bottom of the American income distribution and a widening of inequality. That is, increased U.S.-Mexico trade might pull up Mexican wages at the lower-skill range, but lower such wages in the U.S. However, expanded trade with Mexico to some extent would substitute for trade from other low wage areas, mainly in Asia. Thus, downward pressure on the American unskilled wage could be felt whether or not the U.S. more fully integrates its economy with that of Mexico.

Some data do point to a tendency for foreign and U.S. wages to equalize. Table 4 shows manufacturing wages in the seven countries featured on previous tables as a percentage of U.S. wages. Foreign

Table 4

Foreign Wages as Percent of American, Manufacturing Sector, 1980-91, Eight Developed Countries

Country	Total Hourly Compensation as Percent of U.S. Level:				
	1960	1970	1980	1990	1991
United States	100%	100%	100%	100%	100%
Canada	80	83	85	108	112
Japan	10	24	57	85	93
France	31	41	91	102	99
Germany, West	32	56	125	145	143
Italy	24	42	81	110	111
Sweden	45	70	127	140	141
United Kingdom	32	36	75	84	87

Note: Total compensation includes wages, benefits, and payroll taxes. Figures refer to production workers.

Source: Calculated from data appearing in U.S. Bureau of Labor Statistics, Handbook of Labor Statistics, bulletin 2217 (Washington: GPO, 1987), Table 133, and Bureau of National Affairs, Inc., "Labor Costs in Japan, Canada Reached New High Relative to U.S. Costs in 1991," Daily Labor Report, July 27, 1992, p. B3.

wages rose relative to American wages during the 1960s and 1970s. Although with the end of fixed exchange rates in the early 1970s, year-to-year figures will jump around, it is nonetheless clear that a long-term wage convergence with the U.S. among developed countries has occurred.

During most of the period shown, this phenomenon did not come about because real wages in the U.S. were falling towards world levels. American real wages moved generally in line with American productivity during 1960-80. During those years, the tendency toward wage equalization in the developed world seemed to stem mainly from the faster rate of productivity growth abroad relative to the U.S. The faster foreign productivity growth, in turn, was associated with rising foreign capital/labor ratios.[54]

In the 1980s, as the dollar substantially appreciated, U.S. real wage growth did lag behind productivity. As discussed in a previous chapter, this period was an era of concessionary wage bargaining and a downward shift in American wage norms. Studies of earlier periods suggest that relative wage slippage in trade-impacted industries can result from foreign competition.[55]

However, the wage lag during the period of dollar appreciation was not concentrated in manufacturing - the center of import competition - suggesting that product market pressure from the international sector was not the sole explanation. And concession bargaining was not disproportionately found in the trade sector. In fact, trade-sensitive industries were less prone to concessionary wage bargaining than others.[56] Changing technology - which favored some occupations and displaced others - certainly was a factor in the wage slippage of America's blue-collar workers and may well have been more important than international trade in changing the U.S. wage structure. In any case, it appears that the same type of wage slippage experienced in the U.S. has occurred in other developed countries, too, including countries which were probably more insulated than the U.S. from low-wage foreign competition. Thus, technology is likely to be an important cause since technology is easily spread in the modern world.[57]

Good wage data are less readily available for third-world countries than for developed countries. However, the picture of world wage convergence with the U.S. among the developed countries does not necessarily apply elsewhere. It is possible for less developed countries to show marked wage growth relative to the U.S. even if they start from low bases. Note that on Table 4, Japan's relative manufacturing wage went from only 10% of the U.S. level in 1960 to 93% of the U.S. level by 1991. But starting from a low base does mean that wage catch up will take a long time to occur -- if it occurs at all. Some low wage countries have featured wage growth faster than the U.S.; others have not. The Asian "tigers" - Hong Kong, South Korea, Taiwan, and Singapore - seem to be following the Japanese path of rapid economic growth and rising wages. But other countries have not always been able to duplicate Japanese success.

The gaps between U.S. and third-world wages are quite large in absolute terms, as Table 5 illustrates.[58] Obviously, if a firm can obtain its capital abroad at the same cost as in the U.S., and if all non-labor production costs (adjusted for the cost of transportation) are the same as in the U.S., the markedly lower wage in the third world will give production there a clear cost advantage. For certain kinds of "assembly-intensive" products, such as home electronic equipment, lower wages abroad have given the edge to foreign suppliers.

Yet, it is often the case that non-labor costs are not the same abroad as in the U.S. In 1992, 58% of U.S. imports came from developed countries - not from low-wage third-world countries.[59] In many of these countries, wage levels were comparable to the U.S. Clearly, therefore, wage levels alone are not the explanation for much of what the U.S. buys abroad. On the other hand, the rapid growth of imports from the Asian tigers, combined with the rise of China as a significant source of imports, suggests that low wages, combined with relatively open access to the American market, can be a path for sustained rapid growth. This path is the one Mexico, with its added advantage of proximity to the U.S. market place, hopes to follow.

Table 5

Hourly Compensation Relative to the U.S. in Selected Third-World and Rapidly-Industrializing Countries, Manufacturing, 1975-91

Country	Hourly Compensation as Percent of U.S.			
	1975	1980	1990	1991
Brazil	14%	14%	18%	17%
Mexico	31	30	12	14
Hong Kong	12	15	22	23
South Korea	5	10	26	28
Singapore	13	15	25	28
Taiwan	6	10	27	29

Note: Figures refer to manufacturing production workers.

Source: Bureau of National Affairs, Inc., "Labor Costs in Japan, Canada Reached New High Relative to U.S. Costs in 1991," Daily Labor Report, July 27, 1992, p. B3.

Protection and Real Wages.

While the notion of U.S. wages dropping to third-world levels is not plausible, it is possible that trade could have a retarding effect on real wage growth. Economic theory has long featured models in which trade could lower real wages (and trade restrictions - such as tariffs and quotas - could raise them.[60] There is evidence that the U.S. has tended to provide tariff protection to industries intensive in the use of unskilled labor.[61] This tendency suggests an effort to protect the wages and employment of those most vulnerable to foreign competition.[62] However, the long term effect of protection on wages generally is difficult to pin down empirically. Nonetheless, the proposition that protection could raise some people's wages is more definite.

Limits on foreign competition make possible higher domestic prices for protected items than would otherwise prevail. The greater profitability protection permits is not necessarily going to be passed along to workers as higher wages. Protection directly affects the product market, not the labor market, and protected employers will not necessarily see any need for raising pay. However, if workers in a protected industry are represented by a collective bargaining agent, they may be able to obtain some of the "rents" afforded by protection in terms of higher wages. Indeed, the union involved may be a vocal proponent of the import restricting policy.

Tariffs, Quotas, and Wage Bargaining.

There are two basic kinds of explicit protective devices in use.[63] Tariffs are taxes on imports collected at the time of entry. The tariff/tax raises the landed price of foreign goods, making them less price competitive with domestic substitutes. Quotas, in contrast, place an absolute limit on the number of imported items that will be permitted to enter the domestic market. Once the quota is sold out, domestic suppliers no longer face foreign competition and are therefore free to increase their own prices. Tariffs are administered by the importing country, whose government collects the resulting revenue. Quotas may be administered by the importing country, but are sometimes handled by foreign exporting countries under the terms of "orderly marketing agreements."[64]

Even though tariffs restrict foreign competition, they do not eliminate it. Domestic producers are limited in how much they can raise prices by the potential attraction of more imports. As the domestic price is raised, the alternative foreign price - even with the added tariff - looks more and more attractive to consumers. The absolute quantitative restriction under a quota, in contrast, eliminates such competition. Once the quota is exhausted, domestic consumers cannot buy the foreign alternative at any price.

To the extent that unions can bargain for a share of the gains from protection in terms of higher pay, they will probably prefer quotas to tariffs. The passing along of wage increases into prices will be easier if the volume of foreign sales is absolutely limited. And, indeed, American unions have generally pushed for quota-like quantitative limits on imports rather than tariffs.[65]

Usually, the union motivation in seeking protection is a mix of both pay and employment objectives. The union seeks to prevent job loss of its members from import competition as well as to protect its bargaining position. In principle, job protecting could be done as well by tariffs as by quotas. However, job protection via tariffs is more complex, since foreign sales will be determined by (unknown) demand elasticities and the (uncertain) reaction of domestic pricing to the tariff. Quotas, in contrast, fix the number of foreign units sold, making their effects more definite. Thus, unions are likely to prefer quotas to tariffs, regardless of the mix of their pay vs. employment motivations.

Often unions and management - even if they have trouble agreeing on other issues - see eye-to-eye on the need for protection from imports. But this agreement is not always total; sometimes their views diverge. For example, the firms involved may be multinationals and may be in a position to import themselves. Or, because they have operations abroad, they may be fearful of triggering a "trade war" between the U.S. and other countries which could hurt their affiliates.[66] Firms are tied to a domestic industry by capital investments; unions and workers have stakes in the industry which have been stressed in previous chapters. Sometimes the tie embodied in the latter stake is stronger than that engendered by past capital investments. Thus, unions may sometimes be stronger advocates of protection for particular products than the firms which make them. Indeed, they may be the only advocate in some cases.

IV. Human Resource Management and International Competitiveness.

Human resource management practices in the U.S. cannot be held responsible for the effects of volatile exchange rates, federal budget deficits, interest rates, etc., all of which can affect the American balance of exports and imports. However, over the long run, American human resource practices - both at the firm level and in terms of public policy - can influence competitiveness. Despite the temptation to put the issue in terms of jobs, in the long run the issue is more the kind of jobs, and the industries in which those jobs will be found, rather than the number of jobs. Ultimately, the competitiveness issue is a major element in determining the American standard of living.

Under a flexible exchange rate system, exchange rate adjustments occur to equate supply and demand for the U.S. dollar. If at the prevailing exchange rate, American exports fall short of imports, and if foreigners are unwilling to hold the resulting increments of claims on the U.S., the exchange value of the dollar will fall until demand and supply for it are again equated. Thus, equilibrium of a sort is guaranteed, even if U.S. competitiveness declines. However, falling real exchange rates tend to reduce American living standards in two ways. First, such depreciations are usually accompanied by declines in the "terms of trade," the ratio of export prices to import prices.[67] Such terms of trade deteriorations mean that - with a unit of exports worth less in relative terms - it takes more American resources to buy a unit of imports. Seen from the viewpoint of the typical employee, this means declining real wages measured in terms of imports and import-competing goods, at least in the short run.

Second, long term declines in U.S. competitiveness are likely to show up as problems for the manufacturing sector. If the manufacturing sector weakens - both as a source of exports and of import-competing goods - the U.S. overall pattern of production will shift toward agriculture and primary products (to pay for imports and interest on America's net debt to foreigners). Manufacturing employment opportunities will be reduced and employment will thus tilt toward the lower-wage sectors of the economy.

Were such a process to continue indefinitely, it would act as a long-term retardant on real wage growth and - therefore - on overall living standards. Rising anger over foreign competition and import displacement could trigger a protectionist move in Congress. Sliding American competitiveness on world markets could thus have unfortunate consequences in the area of international relations and foreign policy, as well as on the domestic economy.

i. Trade Adjustment Assistance: Background.

Even in the best of circumstances, some industries will be losers in the international market place. As already noted, there are certain industries in which labor costs are the main element of cost competition. Third-world countries, with labor costs ranging from a tenth to a third of American levels, are going to have an advantage in such cases that will be very hard to overcome. Some U.S. workers will be displaced as a result.

The U.S. has had a program of trade adjustment assistance (TAA) for workers and firms injured by foreign competition since the early 1960s. Originally, this program - adopted when U.S. manufacturing was heavily export oriented - was enacted to obtain labor support for wide ranging trade legislation. The Trade Expansion Act of 1962, a bill strongly supported by the Kennedy administration, provided for Presidential negotiation of tariff reductions with the recently-formed European Common Market and with other countries. At the time, the AFL-CIO generally supported the bill, but needed a provision to assist those affiliates experiencing import problems.[68]

Under the Trade Expansion Act, the worker component of trade adjustment assistance was supposed to provide supplements to unemployment compensation and funds for retraining to displaced workers who could show that their displacement was due to imports. The imports, in turn, had to be attributable to a concession, e.g., a tariff reduction, made by the U.S. However, proving the cause-and-effect relationships proved exceedingly difficult and no TAA petitions were approved until the early 1970s.[69]

Congress again considered the adjustment assistance issue in 1974. At that time, the President again sought legislative authority to negotiate with foreign countries for further reductions in international trade barriers. By then, imports were perceived as a threat to important elements of manufacturing, and - in particular - by organized labor which had heavy concentrations of members in that sector. A liberalized TAA program was included in the authorization bill, mainly in the hope of blunting labor's opposition, rather than of gaining its support.[70]

The new TAA provision eased the requirements for proving cause-and-effect links between imports and displacement, and dropped the requirement that the imports had to be due to a trade concession by the U.S. As a result, a substantial increase in approvals of petitions for TAA occurred. TAA became a major factor in government policy toward displaced workers by the early 1980s.

In fiscal year 1980, almost 685,000 workers were certified by the U.S. Department of Labor as eligible for benefits at a cost of over $1.6 billion.[71] But thereafter, substantial restrictions were placed on the program by the Reagan administration, which initially hoped to do away with TAA entirely. Congress balked at a complete elimination, and the program was kept alive until the mid 1980s, when it was again expanded.

Box P on TAA standards

Legislation enacted in early 1986 extended the program through 1991 and it was continued thereafter. Indeed, amendments in 1988 extended the program to oil and gas field workers who had been previously been excluded on a technicality. As a result, there was a significant jump in workers certified from that sector. However, the program has never approached the activity levels of the Carter years and was running at about $75 million a year in the early 1990s. The incoming Clinton administration signaled that it wanted to fold TAA into a larger program for displaced workers in its first budget.[72] However, opposition to ending the program in Congress remained strong.

Box P

TAA Standards

Under the Trade Act of 1974 the U.S. Department of Labor was charged with determining the eligibility of workers for trade adjustment assistance (TAA). The standards set forth in the Act (section 223) were:

1) That a significant number or proportion of the workers in the workers' firm, or an appropriate subdivision thereof, have become totally or partially separated;

2) That sales or production, or both, of the firm or subdivision have decreased absolutely, and

3) That increases of imports or articles like or directly competitive with articles produced by the firm or appropriate subdivision have contributed importantly to the separations, or threat thereof, and to the absolute decline in sales or production.

Source: Trade Act of 1974 (19 U.S.C. 2273).

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ii. Issues Surrounding Trade Adjustment Assistance.

TAA raises an issue of equity. Under its provisions, a worker displaced by foreign competition is eligible for special government assistance.[73] But an identical worker displaced by domestic competition is not.[74] This peculiarity results from the political motivation of TAA; it has been viewed as a device to foster adoption by Congress of trade liberalizing bills - or to fend off protectionist legislation. In effect, it has been a tool to "buy off" opposition to trade liberalization from adversely affected groups.

Usually, the political motivation behind TAA has not been stated so baldly. Arguments have been made that since "society" has determined that a liberal trade policy is generally beneficial, a kind of social contract is established whereby those who are hurt - so that others may gain - should be compensated. It has also been noted that trade-dislocated workers tend to be older than average with low levels of education and skill. They have been characterized as having greater difficulties in finding new employment after displacement than other workers.[75] Thus, trade-displaced workers have been portrayed as more deserving of assistance than others.

If - despite these rationales - TAA is viewed primarily as a political device, concerns about its actual effectiveness in aiding the displaced are not likely to receive substantial attention. And, indeed, TAA - as actually implemented - has been criticized as featuring slow processing of applications and delays in providing training to those who receive eligibility certifications. Even when the program was at its height, it was found lacking in actually helping displaced workers to readjust and in targeting those workers who most needed assistance.[76]

TAA has also been criticized for weakening, rather than strengthening, the motivation for trade-displaced workers to adjust to available opportunities. By extending unemployment insurance benefit payments, it is said, TAA creates an incentive to delay the inevitable, i.e., to prolong the period of unemployment.[77] Since individuals whose employments are displaced by imports have empirically been prone to long durations of joblessness,[78] further delays in adjustment can compound the problem. One suggestion has been to condition TAA on receipt of a new job, and then make the payment according to a formula which compensates for any reduction of wages which has occurred.[79] Such a system would not preclude provision of a training or mobility allowance to assist in finding employment. However, particularly during periods of high unemployment, Congress may be reluctant to eliminate ongoing income support payments from TAA.

iii. Employment Security.

One criticism of American business practices in the face of international competition is that U.S. firms are too quick to retreat. Consider the comments of economist Lester C. Thurow, dean of the Sloan School of Management at M.I.T.:

> "Every country has a comparative advantage -- the thing it does best... What American firms do best is go out of business... No one goes out of business faster or with less regret, than American firms."[80]

Thurow argues that in other countries, employers are less free to lay off workers, either by law or custom, as we have discussed earlier in this chapter. Going out of a line of business because of foreign competition involves costly payments to employees or costly placement of them in other jobs. As a result, they continue seeking competitive strategies aimed at world markets rather than retreat from the field. Thurow views Japanese firms as taking an offensive strategy; they seek to regain leadership in markets in which they are slipping or threatening to slip. He sees European firms as adopting defensive postures, seeking to hold on to their market shares, but not necessarily striving for leadership.

American firms, Thurow suggests, face relatively low costs of layoff. Even if employees have economic stakes in their jobs, the implicit contracts involved are not legally enforceable. Moreover, Thurow argues, American firms know that their European and Japanese competitors are unlikely to drop out of a market because of their employment commitments. This knowledge makes it all the more likely that the American firm will withdraw. Finally, Thurow proposes, if for some reason the current management of an American firm is reluctant to abandon a market, "takeover artists" will assume control of the firm and do the job for them, probably ridding themselves of the incumbent managers along the way.

How valid is the Thurow critique? Experts would undoubtedly want to make many qualifications, and would consider Thurow position overstated or incomplete. Foreign firms do not literally protect every job. Indeed, the economic slump of the early 1980s, and subsequent employment stagnation in Europe, triggered a greater willingness to "restructure" industry abroad than had previous existed.[81]

However, the asymmetric reaction of the U.S. balance of trade to the appreciation and then depreciation of the dollar is supportive of Thurow's view. When the dollar appreciated after 1980, the U.S. trade balance quickly and markedly deteriorated (as would be expected); imports increased substantially relative to exports. But when the dollar depreciated after early 1985, the reverse did not occur; the U.S. trade balance did not quickly return to its pre-appreciation level. Although exports did pick up, it appeared nevertheless that U.S. firms were not standing by, ready quickly to recoup lost markets, when the opportunity reappeared.[82]

The interrelationship between a company's policies regarding the human resource area and its basic business strategy is highlighted by the Thurow proposition. Internal policies with regard to employment security constrain and condition the degree to which the firm is tied to particular lines of production. The more employment security is offered, the more labor becomes like a fixed cost. The more labor is like a fixed cost, the cheaper it is to continue production - even in the face of adverse market conditions. Using labor that would otherwise remain idle on the payroll involves a very low marginal cost.

iv. Compensation Systems and Other Practices.

In an earlier chapter, it was noted that the form of compensation can be an important element in defining the employer-employee relationship. A flexible compensation arrangement, such as profit sharing, can make it easier for firms to provide employment security in the face of fluctuating product market conditions. If the expansion of the international market place poses more uncertainty for firms, then consideration of the compensation system is clearly warranted.

Share arrangements shift some of the risks of the product market into the labor market, i.e., on to the employees. A willingness to remain in the product market - even in the event of adverse competitive conditions - becomes less costly for the firm.

That willingness is linked to job security. Share systems recognize that although the employees have an investment stake in the firm, the value of their stake, like that of ordinary investors, depends on the economic conditions facing the firm. There is evidence that where capital market de-regulation occurs, and a greater focus is placed on short-term profitability, wage flexibility is forced to increase.[83]

Considerable western interest has been expressed in the Japanese semi-annual bonus payment system for employees. As illustrated on Table 6, Japan has exhibited very low unemployment rates, even in recession, and relatively little fluctuation in unemployment.[84] It has been argued that the bonus system - which has elements of profit sharing - is one factor which permits Japanese firms (and therefore the Japanese economy) to absorb external demand shocks more easily than firms elsewhere. In addition, Japanese employers tend to make greater use of adjustments in hours per worker and there is a pool of women just outside the official labor market which absorbs economic fluctuations.[85] And the Japanese unemployment insurance system provides a cash incentive to workers who find new jobs before their benefits expire.[86]

Japan is not the only country to show a low unemployment rate on Table 6, however. Sweden, a country which does not have a Japanese-style bonus system, also stands out. Sweden had a long

Table 6

Civilian Unemployment Rates in Eight Developed Countries, 1979-91

Country	Rate of Unemployment			
	1979	1982	1989	1991
United States	5.8%	9.7%	5.3%	6.7%
Canada	7.4	11.0	7.5	10.3
Japan	2.1	2.4	2.3	2.1
France	6.0	8.3	9.6	9.6
Germany, West	3.0	5.8	5.7	4.4
Italy	4.4	5.4	7.8	6.9
Sweden	2.1	3.1	1.3	2.6
United Kingdom	5.4	11.3	7.1	8.8

Note: Unemployment data have been adjusted to American definitions.

Source: Monthly Labor Review, vol. 116 (May 1993), p. 120.

history of welfare state programs aimed at holding down unemployment through retraining, subsidies to encourage mobility, etc. But such programs can be expensive. After 1991, the Swedes began restructuring their economy and unemployment soared.

Based on the Japanese example, and the unwillingness of the Swedes to continue their activist approach, it appears that a system of self-imposed reluctance to layoff, combined with a flexible, share-type pay system, and surrounded by a peripheral contingent workforce seems best able to hold down core unemployment. Workers have a stake in the firm, which is recognized, but the value of that stake is not rigidly set and reflects prevailing economic circumstances. The entrepreneurial element of compensation for ordinary employees is in keeping with an aggressive stance in the product market rather than a defensive posture or a willingness to drop out in hard times.

v. Productivity: The International Setting.

Productivity is a key variable in determining competitiveness. In absolute terms, a productivity advantage can offset the cost disadvantage of a higher wage, by bringing down unit labor costs. And in terms of trends, higher rates of productivity improvement can make possible rising real wages without eroding a country's competitive position.

Absolute Productivity Differentials.

It is extremely difficult to obtain data on absolute productivity differentials by industrial sector across countries. A very crude all-sector measure is simply gross national product (GNP) per employee.[87] In the late 1980s, GNP per employee in northern Europe and Japan generally was comparable to the American level. British GNP per employee was about 70% of the U.S. level. South Korea's GNP per employee was about one fourth the American level and Mexico's less than one fifth.

Thus, in absolute terms, the U.S. has been able to offset its higher wages - when its wages are higher compared with other countries - with higher productivity. But its ability to enjoy such an offset has fallen over the long term, as other nations catch up in productivity levels. As Table 7 shows, the U.S.'s long-run rate of productivity growth in manufacturing was generally slower than those of its developed competitors until the 1980s; thereafter it fell somewhere in the mid range. Thus, absolute differentials narrowed until the 1980s and were still narrowing, even in the 1980s relative to Japan.

Productivity Catch Up.

That there should be a catch up in productivity in the decades after World War II is not surprising. Before World War II,

Table 7

Trends in Manufacturing Output Per Hour in Eight Developed Countries, 1960-91

Country	Annualized Percent Change Output Per Hour		
	1960-73	1973-79	1979-91
United States	3.2%	1.4%	2.4%
Canada	4.5	2.1	1.3
Japan	10.3	5.5	4.3
France	6.5	4.8	3.1
Germany, West	5.8	4.3	1.9
Italy	7.5	3.3	4.0
Sweden	6.4	2.6	2.2
United Kingdom	4.2	1.2	4.3

Source: U.S. Bureau of Labor Statistics, press release USDL: 92-752, December 2, 1992; and earlier data.

American productivity was substantially higher than that of other developed countries, due to heavier capitalization and the application of the most modern technology. For example, a study of American vs. British productivity as of the late 1930s revealed that U.S. output per worker was more than twice the British level in such products as radio equipment, automobiles, glass containers, and paper. It was 1.4 - 2 times higher in cotton goods, cigarettes, hosiery, footwear, and beer production.[88] Damage to European and Japanese industrial plants during World War II added to the American productivity advantage.

But the effects of wartime damage were not permanent. The damage was eventually repaired, and newer-vintage capital equipment (embodying the latest technological advances) replaced what was lost in the war. Rates of investment abroad moved foreign capital-to-labor ratios up towards American levels. And, even though the U.S. emerged in the postwar period as a principal source of technological innovation, the technology could be - and was - transmitted to other countries.

In the first half of 1980s, the rising dollar and resulting international competition put special pressure on the U.S. to improve its productivity performance. General recession during the first two years of that period added to the pressure to restructure and raise productivity. U.S. productivity in manufacturing rose relative to the American service sector (which was not as directly affected by foreign competition).[89]

Unexplained Slippage.

Issues related to U.S. productivity performance have already been discussed in an earlier chapter. All countries, not just the U.S., experienced a productivity slowdown after 1973. It appears that the slowdown abroad - as in the U.S. - cannot be fully explained by measuring changes in capital and labor inputs. However, the available evidence suggests that in the U.S., the unexplained element in the slowdown was larger than those of western Europe and Japan.[90]

It would be unfair - especially since the cause of the slowdown is not fully known - to blame human resource practices in the U.S. for the American slippage after 1973, since other countries experienced similar erosion of their past productivity growth rates. But, on the other hand, the possibility of improvements in human resource approaches as a way of accelerating the American productivity trend, relative to other countries, ought not to be neglected. The most positive approach is to look at the record of past productivity performance as both a challenge to human resource professionals and an opportunity.

Alternative Human Resource Strategies.

Competition from the foreign sector is going to be a continuing factor in transforming the American industrial scene. In theory, the U.S. could insulate itself from the external economy through tariffs, quotas, and similar arrangements. But although particular international treaties come and go, and particular industries are sometimes successful in obtaining protection, the U.S. will not wall itself off from the rest of the world. Thus, just as firms are forced by foreign competition to re-examine their strategies in marketing, production, and product development, so must they re-consider their human resource management policies.

Although the next chapter will deal with human resource futures, the international experience does suggest some alternative models. One approach - the Japanese model - is to maintain long-term stable employment relations with core employees aimed at producing multi-skilled workers who can be redeployed as market demands change. In effect, the flexibility needed - and much of the risk entailed in meeting competition - is internally managed by the firm. Although pay for ordinary employees is somewhat contingent on company performance (which helps provide job security), executive rewards are tied to long term promotion within the enterprise rather than to short term profits.[91]

Another approach - at the other end of the spectrum - is the contingent employment model. Employment relationships are not guaranteed and the labor market functions on a spot basis: a day's work for a day's pay. Individuals (or the external school system) are responsible for their own training.[92] Rewards are short term, since the employment relationship is not guaranteed to last. The risks of economic adjustment are borne largely by employees.

It is interesting to note that there are examples of successes with both models in the world economy. Certainly, Japanese success in manufacturing exports has garnered the major share of attention by management experts. But one of the most successful U.S. exporting industries - motion picture and television production - has been run for years on the contingent model. Employees are hired for projects, not for long term relations. A variety of deal makers put together ideas, financing, and talent for particular projects. Compensation for professional employees (writers, actors, etc.) is often contingent on the success of the project. When production is over, employees must find themselves new work.

There is no single answer for all industries. In some cases, the hire/fire model, combined with use of temporaries, part-timers, and other loosely-linked employees may prove to be the best approach, from the employer viewpoint. These will be industries in which a heavy training commitment is not required for production. Note, however, that such industries are likely to be characterized by low wage and low skill workers.

Industries of that variety, if they are exposed to international trade, are extremely vulnerable to low wage competition from developing countries. In the U.S., such industries will at best be import-competing, not export leaders. At worst, even with the flexibility inherent in a hire/fire approach, they may nevertheless be uneconomic. Thus, the search for human resource innovations which foster international competitiveness is unlikely to produce fruitful results in these sectors.

V. Conclusions.

Until the 1980s, many of the topics discussed in this chapter - exchange rates, international comparative labor costs and productivity - would not have been thought appropriate for an human resource management text. To the extent that an international component entered the discussion, it would simply be a comparison of how similar human resource functions were carried out in various countries. But with the greater integration of the world economy, human resources cannot stand apart from international market trends.

Although international human resource management can no longer be confined solely to variations in practice from country to country, there is still much to be said for the international comparative approach. The fact that practices do vary - that the same function can be carried out in many different ways - is important. It is a reminder not to take national characteristics as given. Perhaps that is the most crucial lesson to be learned; there is a menu of human resource management practices available. No one country has a permanent lock on the best approach to human resource problems. While national traditions and culture may limit the choice on the menu, there are always options and alternatives available.

EXERCISE FOR THE STUDENT

Select a country in which you have an interest. Draw up an human resource profile, statistical and descriptive, from the international sources described in this chapter. Compare the long run trends in productivity growth and labor costs in your selected country with those of the U.S. What factors explain the differences between the U.S. and your chosen country? If you have an interest in a particular industry, repeat this process (obtaining as much information as you can) for the industry in your selected country and in the U.S.

KEY QUESTIONS AND PHRASES

1. What key differences can be cited between foreign and U.S. practices with regard to union-management relations?

2. Employers abroad have called for greater "flexibility" in the labor market. What types of flexibility are being sought?

3. What important differences can be cited between U.S. and foreign practices with regard to determination of employee benefits and working conditions?

4. Why are exchange rates of concern to human resource managers? How might movements in exchange rates be relevant to the choice of compensation system?

5. What are the areas of common and divergent interests of employees and employers with regard to protective measures such as tariffs and quotas?

6. Why have unions been more likely to prefer quotas over tariffs as a form of protection?

Phrases:

co-determination, employee involvement, European Community, European Monetary System, extension of labor agreements, incomes policy, International Labour Organisation, international trade secretariats, national health insurance systems, North American Free Trade Agreement, personal pensions, productivity, quality circles, strategic trade theory, trade adjustment assistance, unit labor costs, works councils, world trends in unionization

FOOTNOTES

1. See, for example, Hervey Juris, Mark Thompson, and Wilbur Daniels, eds., Industrial Relations in a Decade of Economic Change (Madison, Wisc.: Industrial Relations Research Association, 1985); Greg J. Bamber and Russell D. Lansbury, eds., International and Comparative Industrial Relations: A Study of Developed Market Economies (Boston: Allen & Unwin, 1987).

2. Leo Troy, "Is the U.S. Unique in the Decline of Private Sector Unionism?," Journal of Labor Research, vol. 11 (Spring 1990), pp. 111-143; Richard B. Freeman and Marcus E. Rebick, "Crumbling Pillar? Declining Union Density in Japan," working paper no. 2963, National Bureau of Economic Research, May 1989.

3. See Archie Kleingartner and Hsueh-yu Peng, "Taiwan: An Exploration of Labour Relations in Transition," British Journal of Industrial Relations, vol. 29 (September 1991), pp. 427-445.

4. The differences between the American labor movement and those abroad with regard to political orientation are sufficiently marked that scholars refer to American "exceptionalism," in effect labeling the U.S. case as an aberration.

5. Daniel J.B. Mitchell, "The Australian Labor Market" in Richard E. Caves and Lawrence B. Krause, eds., The Australian Economy: A View from the North (Washington: Brookings Institution, 1984), pp. 127-193.

6. An issue within the EC has been the adoption of a so-called "Social Charter" which would mandate certain benefits and provide advance notice of layoffs and other information related to the workplace through consultation mechanisms (along with other provisions). See John T. Addison and W. Stanley Siebert, "The Social Charter of the European Community: Evolution and Controversies," Industrial and Labor Relations Review, vol. 44 (July 1991), pp. 597-625.

7. Henry P. Guzda, "Industrial Democracy: Made in the U.S.A.," Monthly Labor Review, vol. 107 (May 1984), pp. 26-33.

8. U.S. Department of Labor, Bureau of Labor-Management Relations and Cooperative Programs, U.S. Labor Law and the Future of Labor-Management Cooperation: Second Interim Report - A Working Document (Washington: U.S. Department of Labor, 1987).

9. Robert J. Flanagan, David Soskice, Lloyd Ulman, Unionism, Economic Stabilization, and Incomes Policies: European Experience (Washington: Brookings Institution, 1983).

10. Michael Wallerstein, "Union Centralization and Trade Dependence: The Origins of Democratic Corporatism," working paper no. 126, Institute of Industrial Relations, UCLA, July 1987.

11. Daniel J.B. Mitchell, Essays on Labor and International Trade (Los Angeles: UCLA Institute of Industrial Relations, 1970), chapter 4.

12. Herbert R. Northrup and Richard L. Rowan, "Multinational Collective Bargaining Activity: The Factual Record in Chemicals, Glass, and Rubber Tires, Part I and II" Columbia Journal of World Business, vol. 9 (Spring 1974 and Summer 1974), pp. 112-124 and 49-63, respectively; Herbert R. Northrup, "Why Multinational Bargaining Neither Exists Nor is Desirable," Labor Law Journal, vol. 29 (June 1978), pp. 330-342.

13. Jacques Rojot, International Collective Bargaining: An Analysis and Case Study for Europe (Deventer, Holland: Kluwer, 1978).

14. Jack Barbash, Discussion of "U.S. Industrial Relations in Transition: A Summary Report" in Barbara D. Dennis, ed., Proceedings of the Thirty-Seventh Annual Meeting, Industrial Relations Research Association, December 28-30, 1984 (Madison, Wisc.: IRRA, 1985), pp. 292-293.

15. Lloyd Ulman, "Who Wanted Collective Bargaining in the First Place?" in Barbara D. Dennis, ed., Proceedings of the Thirty-Ninth Annual Meeting, Industrial Relations Research Association, December 28-30, 1986 (Madison, Wisc.: IRRA, 1987), pp. 1-13.

16. John J. Lawler, "Union Growth and Decline: The Impact of Employer and Union Tactics," Journal of Occupational Psychology, vol. 59 (1986), pp. 217-230.

17. Ruth Milkman, Japan's California Factories: Labor Relations and Economic Globalization (Los Angeles: Institute of Industrial Relations, 1991), chapter 5.

18. The manufacturing union representation rate in 1987 for foreign-based multinationals in the U.S. was about 22%. The overall rate for manufacturing in that year was about 25%. With some adjustment of age of the enterprise (older enterprises are more likely to be unionized), the two rates are probably equivalent. Source: U.S. Department of Commerce, Bureau of Economic Analysis, Foreign Direct Investment in the United States: 1987 Benchmark Survey, Final Results (Washington: GPO, 1990), pp. 97, 111.

19. Third-world countries often are unable or unwilling to enforce the labor standards legislation they enact. Smaller employers may operate outside the standards, while larger, visible (often foreign-owned) enterprises comply. See Rafael Alburquerque,

"Minimum Wage Administration in Latin America," Comparative Labor Law, vol. 6 (Winter 1984), pp. 57-66.

20. The motivation behind this pressure was to blunt criticism of labor exploitation as a source of trade advantage. See Steve Charnovitz, "Fair Labor Standards and International Trade," Journal of World Trade Law, vol. 20 (January-February 1986), pp. 61-78.

21. Richard S. Belous, An International Comparison of Fringe Benefits: Theory, Evidence, and Policy Implications, report 84-815 E (Washington: Congressional Research Service, 1984).

22. Oliver Clarke, "The Work Ethic: An International Perspective" in Jack Barbash, Robert J. Lampman, Sar A. Levitan, and Gus Tyler, eds., The Work Ethic -- A Critical Analysis (Madison, Wisc.: Industrial Relations Research Association, 1983), pp. 121-150, especially pp. 139-141.

23. Mark W. Frankena and Paul A. Pautler, Antitrust Policy for Declining Industries (Washington: Bureau of Economics, Federal Trade Commission, 1985).

24. For some examples, see Charles F. Sabel, Gary Herrigel, Richard Kavis, and Richard Deeg, "How to Keep Mature Industries Innovative," Technology Review, vol. 90 (April 1987), pp. 27-35.

25. Although the U.S. first joined the ILO in 1934, it rarely ratified any ILO conventions. Most of those few that were ratified dealt with maritime labor standards, a clearly international issue. Reluctance to ratify other standards was based on a feeling in Congress that a loss of sovereignty over internal policy might result. The U.S. withdrew from the ILO in the late 1970s in protest over anti-Israeli actions taken by the organization and alleged pro-communist bias on other matters. It rejoined in 1980. In 1988, the U.S. ratified two ILO conventions, one dealing with a non-maritime issue. This action was seen as a change in policy regarding the sovereignty issue by the U.S. For further information, see Tadd Linsenmayer, "U.S. Ends ILO Moratorium by Ratifying Two Conventions," Monthly Labor Review, vol. 111 (June 1988), pp. 52-53; and Joseph P. Goldberg, "The Landmark Provisions of the Ratified ILO Conventions," Monthly Labor Review, vol. 111 (June 1988), pp. 53-55.

26. See below in the text for information sources.

27. A comparison of U.S. and Japanese human resource practices can be found in Masanori Hashimoto, The Japanese Labor Market in a Comparative Perspective with the United States (Kalamazoo, Mich.: Upjohn Institute, 1990).

28. James N. Ellenberger, "Japanese Management: Myth or Magic," American Federationist, vol. 89 (April-June 1982), pp. 3-12; Satoshi Kamata, Japan in the Passing Lane: An Insider's Account of Life in a Japanese Auto Factory (New York: Pantheon Books, 1982). The latter was reviewed in Time as a "powerful indictment" of Japanese human resource management practices. ("Bleak House," Time, February 14, 1983, p. 62).

29. Benjamin Aaron, ed., Labor Courts and Grievance Settlement in Western Europe (Berkeley, Calif.: University of California Press, 1971); Jack Stieber, "Protection Against Unfair Dismissal: A Comparative View," Comparative Labor Law, vol. 3 (Spring 1980), pp. 229-240.

30. Katharine G. Abraham and Susan N. Houseman, Job Security in America: Lessons from Germany (Washington: Brookings Institution, 1993).

31. The insider/outsider approach has been discussed in earlier chapters. See Assar Lindbeck and Dennis Snower, "Cooperation, Harassment, and Involuntary Unemployment: An Insider-Outsider Approach," American Economic Review, vol. 78 (March 1988), pp. 167-188.

32. Organisation for Economic Cooperation and Development, Flexibility in the Labor Market: The Current Debate (Paris: OECD, 1986); Guy Standing, "Labor Surplus and Labor Flexibility: A European Perspective" in Howard Rosen, ed., Job Generation: U.S. and European Perspectives (Salt Lake City: National Council on Employment Policy, 1986), pp. 23-55. European union leaders prefer the word "adaptability" to "flexibility" because the latter term in Europe has taken on a management-orientation. "European Labor and Management Welcome Switch from 'Flexibility' to 'Adaptability' Bargaining," Daily Labor Report, October 26, 1987, pp. C1-C2.

33. Martin Vranken, "Deregulating the Employment Relationship: Current Trends in Europe," Comparative Labor Law, vol. 7 (Winter 1986), pp. 143-165.

34. Although the OECD has its headquarters in Paris and the ILO in Geneva, both organizations have sales representatives in the U.S. University libraries are likely to carry both OECD and ILO publications and these often list the current address of the American sales office. EC publications are also available in the U.S. through a commercial vendor.

35. See, for example, Peter H. Lindert, International Economics, ninth edition (Homewood, Ill.: Irwin, 1991).

36. James C. Hartigan and Edward Tower, "Trade Policy and the American Income Distribution," Review of Economics and Statistics, vol. 64 (May 1982), pp. 261-270.

37. Drusilla K. Brown and David M. Garman, "Human Resource Management and International Trade" in Daniel J.B. Mitchell and Mahmood A. Zaidi, eds., The Economics of Human Resource Management (Cambridge, Mass.: Basil Blackwell, 1990), pp. 35-59.

38. Bennett Harrison, "The Roots of Short-Termism," Technology Review, vol. 95 (October 1992), p. 71.

39. Michael E. Porter, The Competitive Advantage of Nations (New York: Free Press, 1990).

40. Information on employment and other measures relating to U.S.-based and foreign-based multinationals appears regularly in the Survey of Current Business.

41. R. Hal Mason, Robert R. Miller, and Dale R. Weigel, International Business, second edition (New York: John Wiley & Sons, 1981), pp. 416-417.

42. U.S. Bureau of Labor-Management Relations and Cooperative Programs of the U.S. Department of Labor, New United Motor Manufacturing, Inc., and the United Automobile Workers: Partners in Training, labor-management cooperation brief no. 10, March 1987.

43. Bretton Woods is a town in New Hampshire at which a major international monetary conference was held in 1944, during World War II. By that time, the allied powers were beginning to plan for the nature of the postwar economy.

44. The International Monetary Fund (IMF) was created after World War II as a financial intermediary whereby countries with balance of payments surpluses could - through complicated mechanisms - lend to deficit countries. The IMF has been modified since its original creation and it now plays a somewhat different role in international monetary affairs. In addition, other means of borrowing reserves were developed in the post World War II period.

45. The reasons for the breakdown are complex and need not be developed here. However, in essence, fixed exchange rate systems require a great deal of international cooperation and coordination of domestic economic policies. Otherwise, currency values are threatened by chronic excess demand or supply. The U.S. dollar was in chronic excess supply during the late 1960s and early 1970s and the Nixon administration was unwilling to apply the painful domestic austerity policies that would have been necessary to maintain the fixed exchange rate system.

46. The journal International Financial Statistics carries a monthly listing of national currency policies.

47. Jeffrey R. Shafer and Bonnie E. Loopesko, "Floating Exchange Rates After Ten Years," Brookings Papers on Economic Activity (1:1983), pp. 1-70.

48. U.S. President, Economic Report of the President, January 1987 (Washington: GPO, 1987), p. 111.

49. Real exports and imports are the values of exports and imports of goods and services, as reported in the national income accounts, divided by the relevant price deflators. The real exchange rate refers to a Federal Reserve Board index of exchange rates of ten major currencies with the U.S. dollar. It is adjusted to take account of relative inflation in the U.S. and the other countries. To understand this adjustment, suppose that the dollar appreciates 10% relative to another country's currency, the impact on U.S. competitiveness can only be measured if the rate of inflation there relative to the U.S. is known. Suppose that prices in the U.S. rise by 4% and prices in the foreign country rise by 6%. Then, as an approximation, the real appreciation of the dollar was actually only 8% [10% - (6%-4%)]. That is, American prices seen by the foreign buyer rose by the 10% appreciation plus the 4% inflation for a total of 14%. However, the foreigner must compare the 14% dollar price increase with the 6% home price rise. The difference is a net relative price shift of 8% in favor of foreign suppliers.

50. Note that the appreciation of the dollar during 1979-85 appears on the table as a negative number, since the number of dollars per unit of foreign currency decreased. Similarly, the depreciation of the dollar during 1985-91 appears with a positive sign on the table.

51. For more analysis of these issues, see Robert Z. Lawrence and Robert E. Litan, "The Protectionist Prescription: Errors in Diagnosis and Cure," and Paul R. Krugman and Richard E. Baldwin, "The Persistence of the U.S. Trade Deficit," Brookings Papers on Economic Activity (1:1987), pp. 289-310, and 1-43, respectively.

52. Readers who have studied international trade will recognize that the text is alluding to the Samuelson factor-price equalization theorem. This theorem, which originally evolved out of the so-called Heckscher-Ohlin model of international trade, is discussed in Lindert, International Economics, op. cit., chapter 4.

53. It also provided a stimulus for the Mexican government to provide economic incentives for firms to build border plants, so as to offer employment to the native population.

54. Daniel J.B. Mitchell, "International Convergence with U.S. Wage Levels" in Barbara D. Dennis, ed., Proceedings of the Thirty-Sixth

<u>Annual Meeting</u>, Industrial Relations Research Association, December 28-30, 1983, pp. 247-255.

55. Ann C. Orr and James A. Orr, "Employment Adjustments in Import-Sensitive Manufacturing Industries, 1960-1980" in Barbara D. Dennis, ed., <u>Proceedings of the Thirty-Sixth Annual Meeting</u>, Industrial Relations Research Association, December 28-30, 1983 (Madison, Wisc.: IRRA, 1984), pp. 230-238.

56. Daniel J.B. Mitchell, "Alternative Explanations of Union Wage Concessions," <u>California Management Review</u>, vol. 29 (Fall 1986), pp. 95-108; Wayne Vroman and John M. Abowd, "Disaggregated Wage Developments," <u>Brookings Papers on Economic Activity</u> (1:1988), pp. 313-338; Wayne Vroman and Susan Vroman, "Wage Adjustments to Increased Foreign Competition" in Barbara D. Dennis, ed., <u>Proceedings of the Fortieth Annual Meeting</u>, Industrial Relations Research Association, December 28-30, 1987 (Madison, Wisc.: IRRA, 1988), pp. 35-43.

57. Two empirical studies on widening wage inequality are Steven J. Davis, "Cross-Country Patterns of Change in Relative Wages," working paper no. 4085, National Bureau of Economic Research, June 1992; Lawrence F. Katz, Gary W. Loveman, and David G. Blanchflower, "A Comparison of Changes in the Structure of Wages in Four OECD Countries," working paper no. 4297, National Bureau of Economic Research, March 1993.

58. The figures refer to production workers. Wage gaps between the U.S. and the countries shown might well be reduced if white-collar workers were included. See Richard S. Belous, <u>Labor Costs in Different Cities Around the World</u>, report 85-1097 E (Washington: Congressional Research Service, 1985).

59. <u>Survey of Current Business</u>, vol. 73 (March 1993), p. 91. "Developed" means Western Europe, Canada, Japan, and Australia.

60. Wolfgang F. Stolper and Paul A. Samuelson, "Protection and Real Wages," <u>Review of Economic Studies</u>, vol. 9 (November 1941), pp. 333-357.

61. Don P. Clark, "The Protection of Unskilled Labor in the United States Manufacturing Industries: Further Evidence," <u>Journal of Political Economy</u>, vol. 88 (December 1980), pp. 1249-1254.

62. Stephen A. Rhoades, "Wages, Concentration, and Import Penetration: An Analysis of the Interrelationships," <u>Atlantic Economic Journal</u>, vol. 12 (July 1984), pp. 23-31.

63. There are also a variety of hidden barriers to trade such as safety standards which vary from country to country and other regulations. These hidden restrictions are often termed "non-tariff barriers." In addition, in the Japanese case, it has been

argued that informal business practices restrict imports. Because they are hidden and hard to quantify, efforts at reducing non-tariff barriers have proven difficult.

64. Foreign countries may agree to limit their own exports under threat of harsher measures by the importing country. They may also be in a position to collect some "rents" domestically by agreeing to the arrangement. The restriction of export sales can have a monopolistic effect, raising the price of those units they are permitted to sell. Thus, although the number of units sold is reduced by the orderly marketing agreement, the mark-up per unit can be increased. Probably the most prominent example of such an agreement is the Multifiber Arrangement which regulates textile and apparel imports into the U.S. and whose origins go back to the late 1950s.

65. American unions have not always favored trade restrictions. Up through the early 1960s, they often looked kindly on trade. This attitude in that period should not be surprising because heavily unionized industries then were often export oriented. See Peter Donohue, "A Monopoly on Brains: Trade Liberalization's Endorsement and Political Action by the Congress of Industrial Organizations and the American Federation of Labor, 1943-1951," working paper, Department of Economics, San Francisco State University, 1987.

66. A "trade war" is a situation in which countries retaliate against one another by imposing trade barriers such as tariffs.

67. There is no theoretical requirement that depreciation lead to a decline in the terms of trade. However, this association is an empirical regularity. If U.S. import prices are viewed as determined largely by foreign costs, and U.S. export prices as determined largely by domestic costs, it is easy to see why depreciation of the dollar (the raising of foreign costs in terms of dollars) would cause the American terms of trade to deteriorate.

68. Daniel J.B. Mitchell, "Labor and the Tariff Question," Industrial Relations, vol. 9 (May 1970), pp. 268-276.

69. A special temporary TAA program was adopted for the automobile industry in the mid 1960s after a U.S.-Canadian agreement established free trade in new cars between the two countries. This program, unlike the more general TAA version, did pay benefits in the late 1960s.

70. The history of TAA is discussed in Daniel J.B. Mitchell, Labor Issues of American Trade and Investment (Baltimore: Johns Hopkins University Press, 1976), chapter 3.

71. U.S. Congress, Office of Technology Assessment, Trade Adjustment Assistance: New Ideas for an Old Program, Special Report (Washington: GPO, 1987), p. 25.

72. U.S. Office of Management and Budget, Budget of the United States Government, Fiscal Year 1994 (Washington: GPO, 1993), pp. 154, A788.

73. The TAA program, as it was extended in 1986 provided for 78 weeks of payments at the same rate as state unemployment insurance. Typically, ordinary unemployment insurance is provided for only 26 weeks. TAA-certified workers also became eligible for retraining programs.

74. Charles R. Frank, Jr., Foreign Trade and Domestic Aid (Washington: Brookings Institution, 1977), chapter 10.

75. American Enterprise Institute for Public Policy Research, Reauthorization of Trade Adjustment Assistance (Washington: AEI, 1983), chapter 4; Malcolm D. Bale, "Adjustment Assistance: Dealing with Import-Displaced Workers" in Walter Adams et al, Tariffs, Quotas & Trade: The Politics of Protection (San Francisco: Institute for Contemporary Studies, 1978), pp. 149-161.

76. U.S. General Accounting Office, Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find a Job Can Save Millions, HRD-80-11 (Washington: GAO, 1980).

77. Walter Corson and Walter Nicholson, "Trade Adjustment Assistance for Workers: Results of a Survey of Recipients Under the Trade Act of 1974," Research in Labor Economics, vol. 4 (1981), pp. 417-469.

78. Douglas L. Kruse, "International Trade and the Labor Market Experience of Displaced Workers," Industrial and Labor Relations Review, vol. 41 (April 1988), pp. 402-417.

79. Robert Z. Lawrence, Can America Compete? (Washington: Brookings Institution, 1984), pp. 131-133.

80. Lester C. Thurow, "Take the Money and Run: U.S. Firms Are Best at Going Out of Business," Los Angeles Times, Part 4, August 16, 1987, p. 3.

81. William Schweke and David R. Jones, "European Job Creation in the Wake of Plant Closings and Layoffs," Monthly Labor Review, vol. 109 (October 1986), pp. 18-22.

82. Attempts have been made to determine if there was a permanent loss of market share of U.S. firms at home and abroad after the dollar appreciation of 1980-85. Krugman and Baldwin find no solid evidence that such a permanent loss occurred. However, it is

extremely difficult to make such a determination - based on a single episode - using the techniques they apply. And their evidence does suggest that the lag in improvement in the U.S. trade balance due to dollar devaluation was longer than might have been expected, based on previous relationships. See Paul R. Krugman and Richard E. Baldwin, "The Persistence of the U.S. Trade Deficit," Brookings Papers on Economic Activity (1:1987), pp. 1-43, and discussants' comments on pp. 44-55.

83. Richard S. Belous, "Flexibility and American Labour Markets: The Evidence and Implications," working paper no. 14, World Employment Programme Research, International Labour Office, June 1987.

84. There have been arguments made that even when nominally converted to American methodology, the Japanese unemployment rate (as reported on Table 6) is understated by the U.S. Bureau of Labor Statistics. It has been said, for example, that displaced Japanese workers are more prone than Americans to drop out of the labor force, and, hence, are not counted as unemployed. Or they become underemployed, working fewer hours than desired. If discouraged workers are included in an expanded definition of the unemployment rate, the Japanese and American rates on that basis are roughly comparable. See Constance Sorrentino, "Japan's Low Unemployment: An In-Depth Analysis," Monthly Labor Review, vol. 107 (March 1984), pp. 18-27; Constance Sorrentino, "Japanese Unemployment: BLS Updates Its Analysis," Monthly Labor Review, vol. 110 (June 1987), pp. 47-53; Constance Sorrentino, "International Comparisons of Unemployment Indicators," Monthly Labor Review, vol. 116 (March 1993), pp. 3-24.

85. Richard B. Freeman and Martin L. Weitzman, "Bonuses and Employment in Japan," Journal of the Japanese and International Economies, vol. 1 (1987), pp. 168-194; Takatoshi Ito and Martin L. Weitzman, "Lessons to be Learnt from Japan," Financial Times, January 21, 1987, p. 17; Katharine G. Abraham and Susan N. Houseman, "Job Security and Work Force Adjustment: How Different Are U.S. and Japanese Practices?," Journal of the Japanese and International Economies, vol. 3 (1989), pp. 500-521.

86. "Japan's Re-Employment Bonus" in Organisation for Economic Co-operation and Development, Employment Outlook, July 1992 (Paris: OECD, 1992), p. 143.

87. Many difficulties arise with this measure. Value added in government is defined as the labor cost. Thus, government productivity cannot be measured. International comparisons will be distorted by differences in the size of the government sector across countries. And the usual difficulties of exchange rate fluctuations arise. The estimates cited below in the text are drawn mainly from U.S. Bureau of the Census, Statistical Abstract of the United States: 1992 (Washington: GPO, 1992), p. 831; and

International Labour Organisation, Yearbook of Labour Statistics: 1991 (Geneva: ILO, 1991), section 3.

88. G.D.A. MacDougall, "British and American Exports: A Study Suggested by the Theory of Comparative Costs," Economic Journal, vol. 61 (December 1951), pp. 697-724,

89. Edward F. Denison of the Brookings Institution argued in unpublished work that manufacturing productivity improvement, and its differential relative to other sectors, has been overstated by methodology used to estimate quality improvements in computer output. However, even after adjustment for the computer effect, some differential remains between manufacturing and nonmanufacturing.

90. Angus Maddison, "Growth and Slowdown in Advanced Capitalist Economies: Techniques of Quantitative Assessment," Journal of Economic Literature, vol. 25 (June 1987), pp. 649-698, especially p. 676.

91. Takao Kato and Mark Rockel, "Experiences, Credentials, and Compensation in the Japanese and U.S. Managerial Labor Markets: Evidence from New Micro Data," Journal of the Japanese and International Economies, vol. 6 (1992), pp. 30-51; Takao Kato and Mark Rockel, "The Importance of Company Breeding in the U.S. and Japanese Managerial Labor Markets: A Statistical Comparison," Japan and the World Economy, vol. 4 (1992), pp. 39-45.

92. There is some evidence that U.S. nonsupervisory workers receive less job training than those in Japan. See Richard M. Cyert and David C. Mowery, eds., Technology and Employment: Innovation and Growth in the U.S. Economy (Washington: National Academy Press, 1987), p. 141.

Appendix

INTERNATIONAL HUMAN RESOURCES AT FEDERAL EXPRESS

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Introduction.

In December 1988, Fred Smith, Chief Executive Officer of Federal Express, Inc. (FEDEX), faced a decision which would dramatically increase the size and scope of his company. Tiger International, the parent company of the world's largest international freight company, Flying Tigers, had approached Smith with an offer to sell the whole company to FEDEX. Through the acquisition, FEDEX would become the largest international cargo company in the world and would gain access to the coveted Asian market, where scarce landing rights were difficult to obtain.

However, FEDEX would have to absorb 6,500 Tiger employees, most of whom were unionized, into its own nonunion organization; the number of foreign countries served would triple; and the number of foreign employees would double, straining FEDEX's administrative staff and challenging the company's centralized organization. Moreover, none of FEDEX's foreign acquisitions had yet become profitable.

Smith needed to make his decision quickly, because other companies, including the industry's largest, United Parcel Service (UPS), also found Flying Tigers attractive. Acquisition of Flying Tigers by UPS almost certainly would mean that FEDEX would never be able to get the routes necessary to becoming a viable force in the international market.

Company History.

On April 1, 1973, FEDEX picked up its first packages for overnight delivery; there were six packages in all, four of them test packages. Three years passed before FEDEX achieved profitability. That initial struggle was instrumental in creating the strong corporate culture that continued to exist at FEDEX. Smith and his company emphasized people and service, and that commitment led to the company's startling growth in the decade following its creation. By 1989, it employed 80,000 people and earned gross revenues in excess of $5 billion. FEDEX has been especially aggressive in the adoption and development of "progressive" human resource policies.

While at Yale, Smith wrote a term paper which outlined his belief that there was an underserved market for a timely and efficient high priority package delivery system. Though he received a "C" grade on that paper, Smith felt that his core idea was valid. At that time, the small package delivery business was shared by the industry leader, UPS, which transported items that were not time-sensitive; Emery Air Freight, which specialized in overnight deliveries; the Parcel Post service offered by the U.S. Post Office; and several airlines, each of which accepted small packages for next-plane-out delivery. Overnight delivery services were expensive and virtually unknown to small businesses and individual consumers.

Smith conceived of FEDEX primarily as a <u>service</u> company, and only secondarily as a transportation company; that is, customers would primarily be buying a service. The central components of the new system were as follows:

<u>Ownership of airplanes</u>. In 1973, when FEDEX was established, there were no companies with aircraft dedicated to small package deliveries. Ownership of airplanes allowed Smith to develop a hub and spoke system, making it far easier to control the operation from beginning to end. However, this feature also meant that volume was critical.

<u>Computerized tracking of packages</u>. No other delivery service was able to tell its customers exactly where a package was located at any point in the delivery process.

<u>100% quality</u>. Smith realized early in the development of the company that 98% or even 99% accuracy would leave thousands of customers dissatisfied. For employees, the commitment to 100% quality means that every individual action is important. Employees are responsible for their parts of the 100% quality goal.

<u>Commitment to employees</u>. Smith believed that FEDEX's primary sales force was its couriers, since they had the most contact with customers. FEDEX recruited and trained its employees based on the premise that their individual efforts were critical to the success of the company, and with the promise that those efforts would be rewarded by attractive compensation packages, substantial opportunities for promotion, and lifetime employment. FEDEX rarely used contract employees and consequently was better able to control the image and performance of its workforce. This high commitment to employees also provided Smith with a strong defense against unionization which he felt would limit flexibility.

The company's motto, "absolutely, positively, overnight!," began to catch on with the public and, in 1976, the company posted its first profit. By 1988, FEDEX achieved a 50% share of the overnight mail and package delivery market and experienced its most profitable year. Also by 1988, FEDEX employed 70,000 people, roughly 10% of whom worked outside of the U.S.

Operations.

FEDEX offers express delivery of packages up to 70 pounds in weight to most of the world. In the U.S., such packages will be delivered by 10:30 a.m. the next day. Throughout the operation, packages are tracked by the bar-codes imprinted on their labels. Individual couriers carry bar-code readers with which they check packages in and out as they are transferred. These bar-codes are connected by computers to customer service representatives. In addition to delivering packages, couriers carry FEDEX shipping materials and labels pre-printed with customer names, addresses, and account numbers to ensure efficient package handling.

Employees are encouraged to offer suggestions for improving their jobs and, more broadly, operating processes. Individual customer service representatives and couriers are given autonomy to make on-the-spot decisions to deal with operating problems and customer concerns. However, FEDEX's corporate office in Memphis, Tennessee makes all policy decisions and provides for standardized employee training programs, performance evaluation procedures, and operating processes. The company slogan, "Make It Purple!," (a reference to FEDEX's unusual purple and orange color scheme) exemplifies FEDEX's emphasis on company-wide adherence to standardized operating policies and practices. FEDEX was built on its commitment to the motto, "People - Service - Profits."

Human Resource Policies.

The strong emphasis placed on human resources at FEDEX is one of the company's most notable features, and the Personnel function, is one of only four staff functions that report directly to the CEO. FEDEX continually evaluates and revises its human resource policies, yet these policies continue to reflect the strong culture which Fred Smith imparted to the company on its founding in 1973.

Virtually every FEDEX statement of company policy, list of instructions, and explanation of operations begins with a reference to people. Rather than selecting one or two "progressive" human resource policies, such as management by objectives (MBO) or employee involvement and participation (EI/P), as touchstones of the company's human resource strategy, FEDEX employs a portfolio of human resource policies which it believes fit closely with it's overall business strategy. Among these human resource policies are the following:

> Employee Recruitment and Training. FEDEX searches the labor market for energetic recruits who possess entrepreneurial spirit. This is true for all types of new hires, ranging from couriers to pilots. Most new employees are given 3 months of orientation training, which includes job-specific skills as well as immersion in company policies and procedures. Training is continuous, though dependent

in part on an employee's career goals. Most employees receive several weeks of formal training each year. Leadership training for supervisors, managers and executives is provided on a regular basis and is regarded as one of the key components of the company's portfolio of training programs.

No Lay-Off Policy. Lifetime employment is an unusual practice in U.S. companies, but FEDEX follows a no-layoff policy in order to retain its experienced workforce, increase employee loyalty, and reduce the incentives for employees to become unionized. This policy was severely tested during the economic recession of the early 1980s, but no layoffs took place. However, there is some flexibility in that FEDEX also employs temporary as well as casual "on-call" employees who do not have lifetime employment.

Promotion From Within. At FEDEX, most supervisory and managerial positions are filled from within the existing workforce. This feature of the company's internal labor market is used by FEDEX to recruit job applicants, and the company believes that it is especially helpful in attracting high quality recruits. Those who are promoted to supervisory and managerial positions understand the problems of their subordinates and are familiar company culture.

Grievance Procedures and Voice. The "Guaranteed Fair Treatment" (GFT) procedure and the "Survey-Feedback- Action" (SFA) plan are two formal mechanisms through which employees can express their concerns and dissatisfaction to the management of FEDEX. GFT is a progressive three-step process through which employees can file written appeals and is open to any employee who feels that he or she has been treated unfairly; this includes supervisory and management personnel. Most written complaints are resolved at the first level, but approximately 650 complaints annually go to the next two higher levels for settlement. SFA is an annual survey of employee opinions about workplace and organizational practices which requires managerial responses in the form of action plans to address employee concerns. In addition, FEDEX has an "open door" philosophy which encourages employee communication with management. All of these policies are designed in part to obviate the need for unionized grievance procedures.

Compensation and Financial Participation. FEDEX's compensation levels are competitive with those of other firms in its industry, though it attempts to stay a bit ahead of median pay rates in the labor markets and communities in which it operates. Annual compensation incorporates both fixed and variable components. Pay increases are based in part on changes in labor market rates and in part on individual merit, as determined through annual performance appraisals. All full-time employees are eligible to participate in the company's profit-sharing plan.

Performance Appraisal. At FEDEX, each employee's job performance is evaluated twice annually by his or her supervisor. An employee who receives a negative performance evaluation or who has violated company policies must follow a "performance improvement" program, which is jointly agreed to by the employee and his or her manager. The last stage of this process consists of a one day paid leave during which time the employee stays home and considers whether or not to remain with the company. If the employee decides to stay with FEDEX, he or she must present a plan to the appropriate supervisor outlining the steps to be taken to improve job performance. FEDEX also maintains a Leadership Evaluation Awareness Process to identify candidates for management positions.

Recognition. In addition to maintaining certain incentive compensation programs, FEDEX recognizes outstanding employees through such programs as the "Bravo Zulu" award. Based on a Navy flag which means "well done", this award is given to employees in recognition of their special efforts, especially in the areas of teamwork and cooperation. The awards include "Bravo Zulu" certificates, small cash payments, and vouchers that can be used for restaurants and tickets to theatrical and sporting events. Supervisors may confer such awards whenever they feel that certain employees have rendered exceptional performance.

Communications. FEDEX employees are distributed throughout numerous locations in the U.S. The company's communications programs are designed to promote a feeling among employees that they are part of a unified team even while being geographically separated. FEDEX maintains its own television network and transmits daily broadcasts to each of its distribution centers in the U.S. These broadcasts are also videotaped and played back in employee cafeterias during work breaks. Broadcast messages include the previous night's service record, the company's stock performance, workplace safety updates, and other items. In this way, employees are made to feel that they get most of their information about the company from internal rather than external media sources.

Expansion Opportunities and Issues.

Although FEDEX grew rapidly in the U.S. during the 1970s and 1980s to the point where it became a major business success story, a critical question facing the company in late 1988 was whether or not it could rapidly expand internationally while preserving its impressive service record. Arnetta Green, Manager of International Personnel at FEDEX, expressed her concern about this matter:

"We are still learning how to work with the different countries in which we already have offices; I can't imagine how we will cope with double the non-U.S. employees we already have. And, we have had very little exposure to Asian countries. I don't know how we can translate our training materials into Asian languages without at least a year's lead time, and it doesn't look like we will get more than a few months."

Charles Thomson, at that time Vice-President for Human Resources of Flying Tigers, expressed concern about how unionized pilots in his company, who were accustomed to exercising considerable autonomy, might react to the more highly structured and centralized FEDEX organization. "By and large, the pilots of Flying Tigers were angry at the prospect of the merger. The company had just enjoyed its most profitable year, and many pilots felt that instead of rewarding the employees management was selling them off."[1] Despite these concerns, Fred Smith was convinced that FEDEX should pursue additional acquisitions in order to launch the next phase of the company's development. Smith believed that if FEDEX chose not to become a major global business player, the company's share of the international market would erode and its core domestic business would increasingly be threatened by stronger, global competitors.

Merger and International Expansion.

On August 7, 1989, FEDEX completed a long-awaited merger with Flying Tigers. FEDEX executives expected the merger to go smoothly. Their company was one of the great success stories in American business whose very name had become synonymous with overnight delivery. Flying Tiger employees should be grateful to become part of a strong, high-profile company. However, FEDEX turned out to be wrong; only two years after the acquisition of Flying Tigers, FEDEX's stock price fell for the first time in its history and the company's declining earnings were primarily attributed to the acquisition of Flying Tigers and to subsequent international expansion. It appeared that FEDEX had failed to assess the complexity of its new organizational arrangements.

FEDEX began its expansion into the overseas delivery market in 1984 with the purchase of Gelco Express, a courier firm based in Minneapolis which served 84 countries. Other acquisitions followed, primarily in Europe and Asia, although the worldwide shortage of landing slots restricted FEDEX's access to the international market. The acquisition of Flying Tigers increased FEDEX's cargo fleet by 25% and vastly enhanced the company's access to foreign markets, especially in Asia, which had provided Flying Tigers with two thirds of its revenue.

Before the acquisition of Flying Tigers, FEDEX operated in 27 countries where it employed 14,000 people; following the acquisition of Flying Tigers and subsequent purchases of several local delivery companies, the number of countries served by FEDEX increased to 108 and the number of employees working abroad increased to 20,000. Although FEDEX's revenues from international operations doubled in the two years following the merger, operating losses from foreign operations increased to more than $200 million annually by 1991. FEDEX's net earnings declined from $184.5 million in fiscal 1989 to $5.8 million in fiscal 1991. Further, FEDEX's profit projections for the early 1990s were revised downward; senior FEDEX executives were uncertain about when, if at

[1]Note to the reader: In 1992, FEDEX pilots voted for union representation.

all, international profitability would be achieved.

Foreign Operations.

With the acquisition of Flying Tigers' landing rights, FEDEX was able to create an international hub and spoke network based on the system that had proven successful in the U.S. FEDEX has hubs in Brussels, Frankfurt, Anchorage and, perhaps most important, Tokyo. Nevertheless, it is more difficult to implement a hub and spoke system globally than in the U.S. because geographical distances abroad are too great to allow every package to go through a single hub. The number of possible routes through which a package may go increases dramatically with additional service areas. FEDEX had limited operations and facilities in many areas of the world, so that a single courier has to cover a wider area than is typically necessary in the U.S. In addition, holidays abroad occur at different times than in the U.S., other countries often celebrate many more official holidays than does the U.S., and business hours vary widely.

In the U.S., FEDEX's culture, human resource policies, and operations were closely integrated. With international expansion, full employee cooperation became more difficult to achieve and efficiency and quality of service suffered. FEDEX's international strategy was based on the acquisition of existing companies and the exportation of domestic policies to foreign locations. But exporting policies proved difficult.

Despite the acquisition of Flying Tigers, FEDEX had neither sufficient aircraft nor landing rights in foreign locations to enable it to transport packages using only its own carriers. In countries where the market is small, FEDEX used local couriers and leases space on existing air carriers, which made the standardization of operating procedures and methods more difficult to manage. Although FEDEX attempted to train employees of local couriers in the company's operating procedures, there was no guarantee that only employees who underwent such training would pick up and deliver packages.

Psychology of a Merger.

When FEDEX acquired a company, there was an understandable tension between the two sets of employees involved in any acquisition. FEDEX found that its own employees viewed themselves as "better" than the employees of acquired companies, while the employees of acquired companies often resented the fact of their having been taken over. Further, employees of acquired companies often worried about the continued existence of their jobs and their "fit" with the new organization.

Although, FEDEX faced these problems all around the world, with numerous local variations, they were initially evident in the acquisition of Flying Tigers. Flying Tigers' management and employees were proud of their company and unhappy that the business was sold. Flying Tigers got its name from the group of pilots who founded the company after World War II. The company's culture was based on a strong sense of individualism. Additionally, employees not only lost their company identity after Flying Tigers was acquired by FEDEX, but also their union representation. Even though FEDEX's human resource policies include grievance procedures and employee opinion surveys, the formerly unionized Flying Tigers' employees were suspicious of policies set down by management rather than agreed to through collective bargaining.

At the same time, FEDEX's management and employees were equally proud of their company and, understandably perhaps, tried to overlay FEDEX values, systems, and processes on Flying Tigers' personnel. In the opinion of Charles Thomson, then Vice President of International Personnel for FEDEX, this was a mistake. According to Thomson:

> "In the early days of the merger, FEDEX badly misjudged the heavy freight market and customer base, and that initially cost the company a great deal of business. FEDEX lost many key Flying Tigers employees who chose not to join FEDEX because they felt that no one would listen to them or take advantage of their expertise. FEDEX also initially imposed many personnel policies and procedures in the international area that were unworkable because of local customs. After a rough first year, FEDEX recognized its mistakes and took actions to correct them."

Because business operations had to be modified to reflect customary practices, rules, and laws prevailing in regions of the world into which FEDEX had expanded, many of the company's human resource policies also had to be modified. Given the considerable heterogeneity among countries of the world in which FEDEX operates, each country presented certain distinct problems.

Employee Recruitment and Training.

FEDEX was generally considered to be an attractive employer by job applicants in the U.S., and the company was usually been able to attract high quality applicants for domestic jobs. However, employee recruitment abroad has proved to be far more difficult for FEDEX. In Hong Kong, for example, the unemployment level was so low that most companies, especially service companies, had major difficulties in filling entry level positions. In Japan, where there was considerable enthusiasm about the services which FEDEX provides, there was little cultural respect for the kinds of jobs which FEDEX offers. As an example, the job of courier is not viewed in the same positive light in Japan as in the U.S. Employment of women continues to be restricted to certain job, such as office/clerical, and this cultural feature serves to restrict the labor supplies available to FEDEX in filling operating and delivery jobs in its Japanese operations.

Employee training is not a traditional human resource practice in several of the foreign countries in which FEDEX acquired delivery companies. In these countries, moreover, local managers are often not well educated or formally trained, and the expatriate managers brought to these countries from the U.S. by FEDEX were typically not provided multilingual or multicultural training. Even if appropriate training programs for foreign nationals and expatriate managers had been established by FEDEX, the speed with which the company expanded its business to these foreign locations made it extremely difficult for the training programs to be translated into local languages, carried out, and coordinated with the rate of business expansion. Furthermore, in some foreign locations, new employees were frequently obtained through employment contractors on an as-needed basis. In those locations, different people often show up for work each day, thereby making systematic training impossible.

No Lay-Off Policy.

Employment-at-will is a far more prevalent practice in the U.S. than in most other countries, so that FEDEX's no-layoff policy is relatively attractive to job applicants in U.S. labor markets. However, lifetime or continuous employment is common in Japan and many European nations, and in these countries employers also traditionally have greater (customary or legal) obligations to their employees than is the case in the U.S. For management employees, mandated severance pay can be even more burdensome. To illustrate, one of FEDEX's Italian managers chose to leave the company after three years of employment. Although FEDEX wanted this manager to stay with the company, FEDEX was nevertheless compelled to pay him $130,000 in severance pay. Not only was FEDEX's no lay-off policy a weaker labor market incentive abroad than in the U.S., the policy has sometimes created a financial burden for FEDEX. This occurred where FEDEX acquired a company and found that it did not need all of the acquired company's employees.

FEDEX's acquisition of Flying Tigers resulted in a surplus of pilots which the company nevertheless was obligated to absorb because of its no lay-off policy. It also created a serious challenge to FEDEX's preference for remaining a nonunion company, given that Flying Tigers' pilots were fully unionized. Though FEDEX was not required to recognize or bargain with the Flying Tigers' pilots' union, it was necessary to merge its own pilot seniority list with that of Flying Tigers. As a result of this decision, some FEDEX pilots fell hundreds of places in the combined seniority list, with consequent loss of status, assignments to new equipment, and reductions of pay rates and certain fringe benefits which were linked to pilot seniority.

Promotion From Within.

The policy of promotion from within has been applied consistently by FEDEX in the U.S., except to certain functional specialties, such as finance and legal affairs, which demand specialized expertise obtained externally. Further, most managerial positions at FEDEX are filled from within the company, usually by people who began their careers in entry-level positions. While FEDEX attempted to follow this policy abroad, it often found it necessary to staff key managerial positions with U.S. personnel.

Criteria for selecting employees for promotion vary considerably among countries. In the U.S., most promotion decisions are based on individual ability and merit, and FEDEX has formalized these criteria through its Leadership Evaluation Assessment Process. By contrast, in many Asian countries, age and length of service are the main criteria used to make promotion decisions. Moreover, in Asia, lateral (as distinct from vertical) "promotions" and transfers are more common and important than in the U.S. FEDEX faced the seniority-in-promotion issue immediately upon its acquisition of local delivery companies in Asia, whose employees had been hired long before FEDEX came on the scene. Expatriate managers employed by FEDEX in Asia were often younger than many of the employees they manage, and this has created employee relations tensions. Recognizing such tension, FEDEX planned to reduce its use of expatriate managers and increase its use of local personnel in Asian countries. But FEDEX's ability to respond to local customs in this regard depended in part on the rate of business expansion and on the successful implementation of employee training and management development programs.

<u>Grievance Procedures and Voice</u>.

The "Guaranteed Fair Treatment" procedure and the "Survey-Feedback-Action" plan are conflict resolution mechanisms which were developed and refined by FEDEX in response to the needs of U.S. employees and managers. Inherent in these policies is an American value system which prizes equality and individual rights. However, FEDEX had difficulty in exporting these procedures because the value systems prevailing abroad were often very different.

For example, the three-step GFT procedure allows an employee with a grievance initially to file the written complaint with his or her supervisor or manager. If the employee was unhappy with the disposition of the grievance at this stage, the grievance is presented to the next level of the procedure, a management committee. If the employee remained unsatisfied with the disposition of the grievance, an International Appeals Board would hear and rule on the grievance; decisions rendered at this level of the GFT were final and binding. Most grievances filed by U.S. employees of FEDEX are resolved at the first step of the GFT.

However, the GFT proved to be unworkable in Asian countries and in Italy. In these countries, supervisors and managers believe that they will lose the respect of their employees if they make decisions which are overturned by their superiors - that is, they will lose "face." Recognizing this issue, FEDEX instituted a two-step grievance resolution process in these countries in which the employee's supervisor or manager and the manager's superior serve as the first step and the International Appeals Board serves as the second step. Supervisors and managers in these countries apparently believed that their authority was not threatened by this process, largely because their decisions could not be overturned by their immediate supervisor or manager.

The SFA plan also needed to be modified for use in certain foreign countries. In Germany, for example, where work rules and other business matters are subject to consultation with legally-mandated works councils, the SFA was viewed with great suspicion. Even though the surveys initiated under this plan were anonymous, the works council at FEDEX-Germany was concerned that the company had a method of identifying employee-respondents and that "complaining" employees would receive unfavorable treatment. In Asian countries, every survey question is typically answered with a check in the middle column ("sometimes agree, sometimes disagree"). Asian employees are especially uncomfortable about criticizing their supervisors and managers, and they also doubt that the confidentiality of their responses will be preserved. FEDEX responded to these concerns with extensive training in the purposes and uses of the SFA, and it worked with local employees to revise and reword survey questions so as to promote respondent understanding and useful survey responses. Significant improvement in foreign employees' acceptance of the SFA plan occurred as a result of these efforts.

The open door policy maintained in the U.S. by FEDEX, although available to all employees worldwide, was not widely used abroad. In the U.S., the company established a casual atmosphere; employees are on a first-name basis, and executives regularly mingle with employees and solicit their opinions and suggestions. Managers and workers in European and Asian countries are often uncomfortable with this type and level of informality.

To illustrate, when Charles Thomson visited a newly-acquired company in Brussels, he behaved as he would in the U.S. He arrived early, took off his coat, walked around the facility, and chatted with employees. Later, Thomson discovered that his behavior had damaged his image among managers in Brussels; he had spoken to employees who were not his direct reports and without their managers being present, and his casual manner and attire offended these managers. When Thomson subsequently apologized for these offenses and remarked that he had merely been attempting to earn employees' respect, a local Brussels manager responded by saying "of course they respect you, you're a Vice President from America". In other words, respect in the Brussels culture (and in certain other local and national cultures in which FEDEX operates) was associated with a title, not the person who holds the title.

Compensation and Financial Participation.

FEDEX has a stated policy of paying competitive compensation rates, and its financial participation policies reflect the company's strategy of motivating employees to work hard for the success of the company. As FEDEX expanded abroad, it found it necessary to modify existing compensation packages so that they would be in accord with the company's compensation policy. In many countries, this adjustment resulted in the raising of pay rates and levels beyond those that prevailed previously (in acquired companies). To illustrate, FEDEX's salaries were about 30% higher than those paid by Flying Tigers for comparable positions, 35% higher than those of equivalent positions in Japan, and 40% higher than those of equivalent positions in Mexico.

Although newly acquired employees were generally pleased to receive pay raises, some employees resented the implications, contained in the fact of pay raises, that the companies which they previously worked for had not treated them "fairly" in so far as compensation was concerned. This practice also significantly increased the fixed costs of these acquired companies and sometimes turned a profitable operation into an unprofitable one.

In certain foreign countries, moreover, legislation sometimes forces FEDEX to pay more for employees in certain job specialties than it does for similar employees in the U.S. For example, Canadian legislation requires companies to follow a policy of comparable worth, that is, equal pay for work of equal value. In practice, this means that jobs which are judged to have the same or similar value based on assessments along several internal job dimensions (factors) must be classified at the same level and paid the same wage or salary. The effect of this policy is to raise labor costs and reduce pay flexibility.

To illustrate, if secretaries and couriers are judged to occupy jobs of the same internal value, Canadian law requires FEDEX to compensate occupants of these jobs at the same rates. This results in higher pay for secretaries employed by FEDEX in Canada than for secretaries employed by FEDEX in the U.S. - and also in lower pay for couriers employed in Canada by FEDEX than for couriers employed by FEDEX in the U.S. If shortages of one or another occupational specialty occur in Canada, FEDEX and other companies cannot selectively raise the pay for the occupational specialty in question without raising the pay for other jobs judged to be of comparable value - jobs for which shortages may not exist and which are therefore relatively easier to fill.

Financial participation and incentive compensation programs practiced by FEDEX in the U.S. also proved to be less successful abroad. For example, in Singapore an incentive program which offered a holiday abroad to the salesperson with the highest dollar volume of sales failed to attract any interest. Upon investigation, it was discovered that the sales personnel viewed the program as having one winner and many losers, and that employees were so averse to losing that the single prize offered by FEDEX did not serve as an incentive to achieve high sales. In fact, employees in many of the countries in which FEDEX operates prefer group rewards over individual rewards, and FEDEX has recently established group incentive plans in those countries.

Indeed, these plans were so successful that FEDEX decided to introduce them in the U.S.

FEDEX relied more heavily on variable pay as part of total employee compensation in order to tie compensation more closely to the performance of the business. Its overall goal was approximately 25% variable and 75% fixed compensation for employees. While there are some countries and cultures in which a relatively large proportion of compensation in the form variable pay is acceptable, in other countries it is not only distasteful but unworkable. In Italy and Brazil, for example, the Doctrine of Acquired Rights states that an employer cannot lower an employee's pay. Implicit in the policy of variable compensation is the notion that an individual employee's pay may vary year to year, based on both individual and company performance. Since Italian and Brazilian laws allow pay to go up, but not down, FEDEX's variable pay plan was unworkable in those countries.

In Germany, FEDEX discovered that employees valued leisure time over increased income. FEDEX often used overtime in the U.S. to insure that packages were handled expeditiously and delivered on time. FEDEX's U.S. employees looked favorably on such overtime work, which is compensated at a 50 percent pay premium. By contrast, FEDEX's German employees consistently refused to stay on past their "normal" work hours, shifts and days, declining overtime pay in favor of leisure. This resistance reduced FEDEX's operational flexibility and increased its costs of doing business in Germany because sufficient numbers of employees have to be hired to meet maximum, rather than average, capacity in order to guarantee package delivery times.

Employee Evaluation.

In countries which have stronger group values and weaker individual values than those that prevail in the U.S., resistance to individually-oriented pay, incentive compensation, performance appraisal, attitude surveys, and conflict resolution programs is often observed. This attitude was found by FEDEX in many of the countries into which it expanded, including several in Asia and Western Europe. Indeed, individual initiative, which is so highly prized in the U.S., was regarded as insubordination in India, where the most important characteristic of that nation's culture is to please one's superior. A human resource strategy, policy, or practice mounted by FEDEX or any other U.S.-based company which does recognize this and other cultural and value differences is likely to result in negative consequences for the business - as FEDEX discovered.

The Reorganization.

On March 16, 1992, Federal Express announced a reorganization of its European operations. FEDEX planned to sell many of the local delivery companies it had acquired. The number of

FEDEX-owned facilities was to be reduced from 125 to 19, and its European workforce was to be reduced from 9,200 to 2,600. Essentially, FEDEX had decided to give up on the domestic European market and retain only a presence sufficient to maintain its international delivery service to and from Europe. In a major departure from its previous strategy, FEDEX planned to contract with independent couriers to make ground deliveries in Europe.

The announcement was the second, and more drastic, step in a new international strategy introduced on December 1, 1991. At that time, FEDEX changed its organizational structure in an attempt to decentralize and give more authority to local and regional managers. Those managers had been complaining about the bureaucracy in Memphis, Tennessee, the U.S. headquarters location of FEDEX. They felt unable to respond sufficiently quickly to local and national market conditions, customer demands, and competitors' actions because all business decisions had to go FEDEX through corporate headquarters.

FEDEX new organization was to be divided into three divisions: (1) the Americas, (2) Europe and Africa, and (3) Asia and the Middle East. Each division was to have its own finance, sales and marketing, and personnel support services. These functions continued to report to FEDEX's Memphis headquarters, but more decision-making responsibility was given to regional and local managers. Some human resource management responsibilities were retained by the corporate office, including such leadership training programs, grievance procedures, and labor relations. Under the new structure, however, regional managers were given authority to determine employee compensation and incentive programs, and local human resource executives and professionals have more responsibility for advising line managers in these respects.

The reorganization of FEDEX raises many questions for other companies, especially service companies, that are attempting to expand abroad. How important are local employees to a company's foreign operations? To what extent can a company's human resource management policies and practices be adapted to local conditions, yet still be coordinated and harnessed to overall business strategy. How much of a company's organizational culture can be exported internationally? What are the risks in changing from a centralized to a decentralized company in order to adapt to regional differences in laws, customs, and practices?