

Centre International de Formation Européenne
INSTITUT EUROPEEN DES HAUTES ÉTUDES
INTERNATIONALES

Diplôme des Hautes Études Européennes et Internationales
2001 - 2002

***Labor Market and Globalization:
Human Resources Management
in Global Enterprises***

Dissertation presented by:

Anamaria CZENTER

Dissertation supervisors:

Esther ZANA

Amr SHAKER

Matthias WAECHTER

Nice, May 2002

Centre International de Formation Européenne
INSTITUT EUROPEEN DES HAUTES ÉTUDES
INTERNATIONALES

Diplôme des Hautes Études Européennes et Internationales
2001 - 2002

***Labor Market and Globalization:
Human Resources Management
in Global Enterprises***

Dissertation presented by:

Anamaria CZENTER

Dissertation supervisors:

Esther ZANA

Amr SHAKER

Matthias WAECHTER

Nice, May 2002

Contents

	Page
INTRODUCTION	4
<hr/>	
CHAPTER ONE:	
The Effects of Globalization on the Labor Market	7
1. Introduction to Globalization	7
1.1. What is Globalization?	7
1.2. “Drivers” of Globalization	9
1.2.1. Globalization of Markets and Production	10
1.2.2. New Information and Communications Technologies	11
1.2.3. Regional Economic Integration	12
1.3. Impact of Globalization	13
2. Employment and Globalization	16
2.1. The Problem of Unemployment	17
2.1.1. Theoretical Approach of Unemployment	19
2.1.2. Back to Reality: What Does Unemployment Mean Nowadays, in the Time of Globalization?	21
2.2. The Effect of Delocalization	26
2.2.1. Delocalization of Work	26
2.2.2. Export Processing Zones	27
2.2.2.1. The Role and Place of Multinational Enterprises in Export Processing Zones	28
2.2.2.2. Why Do Governments Opt for EPZ Regimes	29
2.2.2.3. The Employment Effects	30
2.2.2.4. Labor Conditions and Relations	33
2.2.2.5. The Process of Technology Transfer	38
2.2.2.6. The Future of Export Processing	40

CHAPTER TWO:

Microeconomic Aspects of Globalization: Business and Human Perspective	43
1. Multinational Enterprises, Actors of Globalization	44
1.1. Foreign Direct Investment	49
1.2. Mergers and Acquisitions	53
1.2.1. Theoretical Background	53
1.2.2. Determinants of International Mergers & Acquisitions	55
2. Human Resources	60
2.1. Sources of Sustained Success	60
2.1.1. Traditional Sources of Success	62
2.1.2. The Changing Basis of Competitive Success	65
2.2. Human Resource Managers: Their Role in a Changing Environment	66
2.2.1. The Role of Information Technology	73
2.2.2. Competences for a HR Manager	74
2.3. Managing People: Policies and Practices for Managing the Employees	75
2.4. Work-Life Balancing	87
<hr/> CONCLUSION	96
<hr/> REFERENCES	99
<hr/> ANNEX	102

Introduction

This scientific work focuses on the human aspect of globalization, namely the workforce, at micro- and macroeconomic level.

The first chapter is centered on the effects of globalization on the labor market, with special emphasis on both the issue employment – unemployment and the delocalization-effect.

In both poor and rich countries dislocations from economic and corporate restructuring, and from dismantling the institutions of social protection, have meant greater insecurity in jobs and incomes for the manpower.

The pressures of global competition have led countries and employers to adopt more flexible labor policies with more precarious work arrangements. Workers without contracts or with new, less secure contracts make up a high percentage especially in countries of the Third World, where host governments set up special economic zones - Export Processing Zones - in the hope that developing economies could take advantage from the linkages emerged between foreign and domestic enterprises. France, Germany, the United Kingdom and other countries have weakened worker dismissal laws. Mergers and acquisitions have come with corporate restructuring and massive layoffs. Sustained economic growth has not reduced unemployment in Europe, leaving it at 11% for a decade, affecting 35 million people. In Latin America growth has created jobs, yet 85% of them are in the informal sector. Therefore, one of the most important consequence of globalization is seen in the issue of worldwide

unemployment. The problem of rising unemployment raises concern on the part of governments and citizens because it is an aggravating factor in the process of deepening inequality and social exclusion.

In an era of globalization, the second chapter focuses on the organizational and human resources management changes that have taken place at enterprise level. Globalization of economic life is affecting how organizations are managed.

We are living in a world where money means power, and global enterprises are confronted with the pressure of obtaining huge profits as fast as possible. Therefore they have to restructure themselves. In this world of rapidly globalizing economy, enterprises face a dynamic business environment that requires them to be productive and competitive to survive and grow. The dynamics of this process is getting more and more powerful, so that even directors of enterprises have difficulties to manage their activities for the public interest. The only imperative of the system consists in generating money, so that people are treated as a source of inefficiency and are therefore easily removed, being often replaced by automated machines, that are more productive, rapid and thus have the ability to increase the revenues of the enterprises. At the same time, many of the traditional sources of competitive success are losing from their initial power. Instead, there is another issue that nowadays is getting more importance: “People and how to manage them”. Just as two companies are not alike, neither two workforces are identical. Different business strategies require different approaches to human capital. Because capital is broadly available and innovations can be duplicated quickly, effective talent management is the best way to deliver sustained competitive advantage in business today. Organizations with sustained success are those that focus on growth and achievement by attracting and retaining the best employees. As quality of life is increasing and the impact of work-family conflicts is circular, affecting the employee’s productivity, job satisfaction and work

effort, employers should try to improve the work-life balance of their personnel by adopting various policies and practices. Otherwise they will lose precious and talented workforce, which is expensive to be replaced.

All through the scientific work I was combining the descriptive and explanatory approach with an analytical and critical approach.

Sometimes my style might seem subjective and critical. The explanation is that I think that multinational enterprises should not be so obsessed about gaining profits on the short term, but rather emphasize their strategy on training, developing and binding the human resource which is the vital source for obtaining long-term competitive advantages on the global market.

It is much more expensive to dismiss people than to keep retain them as valuable employees in one's enterprise organization.

Chapter 1: The Effects of Globalization on the Labor Market

1. Introduction to Globalization

1.1. What is Globalization?

Every day you hear it on the news, you read it in the newspapers, you overhear people talking about it... and in every single moment the word ‘globalization’ seems to have a different meaning. So, what is globalization?

“... integration of business activities across geographical and organizational boundaries” (Ray Reilly)

“The capacity to treat the world as one market while... dealing with many culturally diverse merchants” (Noel Tichy)

“... the process by which markets expand to include competitors for customers and productive inputs without regard to national boundaries” (Paul Danos)

“... doing business with a worldwide focus... rather than doing business in an international market with the focus from a home-country viewpoint” (Lawrason Thomas)

Globalization is not just a recent phenomenon. Some analysts have argued that the world economy was just as globalized 100 years ago as it is today. Yet the term is used since the 1980s, reflecting technological advances that have made it easier and quicker to complete international transactions, both trade and financial flows. The most striking aspect of this has been the integration of financial markets made possible by modern electronic communication.

At a political and economic level, globalization is the process of denationalization of markets, politics and legal systems, i.e. the rise of the so-called global economy. Globalization refers to an extension beyond national borders of the same market

forces that have operated for centuries at all levels of human economic activity (village markets, urban industries, or financial centers). It means that world trade and financial markets are becoming more integrated. But just how far have developing countries been involved in this integration? For developing countries the process of catching up with the advanced economies differed in intensity from region to region. In some countries, especially in Asia, per capita incomes have been moving quickly toward levels in the industrial countries since 1970. Other developing countries have made only slow progress or have lost ground. In particular, per capita incomes in Africa have declined relative to the industrial countries and in some countries have declined in absolute terms.

At a *business level*, we talk of globalization when companies decide to take part in the emerging global economy and establish themselves in foreign markets. First they will adapt their products or services to the customer's linguistic and cultural requirements. Then, they might take advantage of the Internet revolution and establish a virtual presence on the international marketplace with a multilingual corporate web site or even as an e-business.

Overall, globalization requires a combination of linguistic, engineering and marketing knowledge that is not easily available.

Globalization is linked to four major aspects:

- *Trade*: Developing countries as a whole have increased their share of world trade from 19 percent in 1971 to 29 percent in 1999. The composition of what countries export is important. The strongest rise has been in the export of manufactured goods. The share of primary commodities (such as food and raw materials) that are often produced by the poorest countries, has declined¹.

¹ "Globalization: Threat or Opportunity?", January 2002, <http://www.imf.org/external/np/exr/ib/2000/041200.htm#1>

- *Capital movements:* Private capital flows to developing countries increased during the 1990s and their composition has changed. Thus, direct foreign investment has become the most important category.
- *Movement of people:* Workers move from one country to another partly to find better employment opportunities. Thus there is a transfer of high-skilled workforce towards industrialized economies.
- *Spread of knowledge (and technology):* Information exchange is an integral aspect of globalization. For instance, direct foreign investment brings not only an expansion of the physical capital stock, but also technical innovation. More generally, knowledge about production methods, management techniques, export markets and economic policies is available at very low cost, and it represents a highly valuable resource for the developing countries.

Economic "globalization" is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term refers to the movement of labor and knowledge/technology across international borders. There are also broader cultural, political and environmental dimensions of globalization.

1.2. “Drivers” of Globalization

Driving factors of globalization can be divided in four groups:

- *Market Drivers:*
 - convergence of per capita income
 - convergence of life-styles
 - organizations' behavior as global customers;

- *Cost Drivers:*
 - push for economies of scale
 - advances in transportation
 - emergence of newly industrialized countries with productive capability and low labor costs;
- *Competitive Drivers:*
 - growth of global networks making countries interdependent
 - rise of new competitors intent on becoming global competitors
 - increased formation of global strategic alliances;
- *Government Drivers:*
 - reduction on tariffs and other trade barriers
 - privatization of industry in many parts of the world
 - creation of trading blocks (i.e. EU, NAFTA, AFTA)

1.2.1. Globalization of Markets and Production

In the face of the recession of the 1990's, the dominant economies and especially the United States of America (USA) intensified the restructuring of their capital (process that had already begun in the 1980's) so as to make it more competitive, and to attempt to surmount the limits of the world market. That entailed, among other things, the introduction of new technologies in production (spread of computers and information technology), the creation of large industrial entities through vast mergers, the liquidation of outmoded sectors, all resulting in a dynamic of integration of industrial sectors and capital, as well as an unprecedented interdependence.² That movement of globalization accelerated the merger of business giants combining their forces to become titanic entities that operate on a global scale, or the establishment of

² COHEN D.: "Fehldiagnose Globalisierung: Die Neuverteilung des Wohlstands nach der dritten industriellen Revolution", Campus Verlag, Frankfurt/New York, 1998

control by a capital entity over sectors sometimes far removed from their own sphere of production. That qualitative leap in the process of globalization means that industrial production is now spread out across the world, it is delocalized so as to take advantage of the tax breaks in one country, or the low wages in another, or the central geographical location of a third. All these imply the creation of structures of supranational administration, suitable to the functioning of a globalized economy. This economic and political reorganization has changed the face of world capital and production.³

Markets promote efficiency through competition and the division of labor, the specialization that allows people and economies to focus on what they do best.⁴ Global markets offer greater opportunity for people to act on more and larger markets around the world. It means that they can have access to more capital flows, technology, cheaper imports, and larger export markets. But markets do not necessarily ensure that the benefits of increased efficiency are shared by all. Countries must be prepared to embrace the policies needed, and in the case of the poorest countries may need the support of the international community.

1.2.2. New Information and Communications Technologies

New information and communications technologies are driving globalization, but also polarizing the world into ‘the connected’ and ‘the isolated’.

Costs of communications plummet, innovative tools are easier to use, so that people around the world use the Internet, mobile phones and fax machines. The fastest-

³

⁴ LACHMANN W., FARMER K., HAUPT R. (Hrsg.): “Globalisierung: Arbeitsteilung oder Wohlstandsteilung?”, LIT, Münster, 1998

growing communications tool ever, the Internet had more than 140 million users in mid 1998, a number expected to pass 700 million by 2002.⁵

For businesses the development in this field has an important impact on costs, which have a decreasing tendency. Thus global enterprises will be willing to locate their important activities in those countries where opportunities are best (low labor costs, tax advantages etc.) in order to increase their competitiveness to be able to enter the global marketplace and face global competition

In the future, the Internet will be used for web based training and for recruitment purposes. Communications networks can foster great advances in health and education. Information and communications technology can open a fast track to knowledge-based growth, as the one followed by India's software exports, Ireland's computing services and the Eastern Caribbean's data processing.

Despite the potential for development, the Internet poses also problems of access and exclusion, creating parallel worlds.

1.2.3. Regional Economic Integration

Following the idea of globalization, during the last fifty years there were signed many regional agreements for the liberalization of the relationships among national states and consequently of national enterprises. Regional economic integration refers to geographic arrangements among countries to remove barriers on trade in goods/services, to investment, and to remove barriers to the free flow of resources between each other. The worldwide known trade agreements are NAFTA – North American Free Trade Agreement, APEC – Asia Pacific Economic Cooperation, MERCOSUR – Latin American Free Trade Zone, AFTA – South-eastern Asian Free

⁵ “Globalization with a human face“, 11/11/2001,
http://www.onlinejournal.net/iri/RTM/free/html/43_1_2.html

Trade Agreement, CEFTA – Central European Free Trade Agreement, EU – European Union.

Specialists argue that in the era of globalization the world tends to escape from the control of national states. In this sense, the Israeli sociologist Dror mentioned for the first time the idea of a “global governance” within the scientific talks of the Club of Rome⁶. Nowadays, indeed, cooperation agreements get a global dimension, as cooperation between different regions is developing (i.e. in March 1996 first talks about an Asian-European collaboration took place in Bangkok).

Studies pertaining to the impact of regional integration reveal the goals of adhering to regional unions: not necessarily great commercial performances were expected, but rather the possibility, the chance to capitalize the opportunities offered by the opening of certain markets and technological innovations.

1.3. Impact of Globalization

The term "globalization" has acquired considerable emotive force. Some view it as a process that is beneficial (key to future world economic development) and also inevitable and irreversible. Others regard it with hostility, even fear, believing that it increases inequality within and between nations, threatens employment and living standards and thwarts social progress.⁷

One of the effects of globalization is immediately positive for capital, because it increases the general rate of profit, and enlarges the world market. That is provoking an increase of profits and purchasing power in the strongest countries, as well as in the countries that benefit from the fallout from these positive effects on the strongest economies.

⁶ PRICOP M., TANȚĂU A.: “Globalization and Firm Strategy”, Eficent, București 2001

⁷ “Globalization: Threat or Opportunity?”, 13/05/2002,
<http://www.imf.org/external/np/exr/ib/2000/041200.htm>

Superficially, it can look as if capitalism has succeeded in overcoming its contradictions and can develop without limits. But it could also look like as if we inhabit a unified world, without inter-imperialist tensions, the image of a "super-imperialism" à la Kautsky⁸, a situation that can only strengthen the hegemonic position of the United States. Yet, it is nothing of the kind, and globalization must be understood as an attempt by the strongest economies to strengthen their competitive position, to attenuate and contain the contradictions that ravage the system, and that, moreover, manifest themselves in the breakdown of national economies, such as that of Russia, or the Asiatic countries, in the exclusion or marginalization of whole populations, or in the development of famine in those zones now abandoned - after their pillage in the colonial epoch - as is the case with sub-Saharan Africa⁹. In fact globalization provides no solution to the fundamental problems of capital, it can only work on its symptoms, and can only last for a limited time. So, if certain economies, like that of the US, now benefit from this process, it is not the same for all national economies. That's why there is so much resistance to the processes of globalization in countries like China or Russia.

Nonetheless, the present period is marked by a growing integration of the diverse national economies, by a growing interdependence of different capitals. One fundamental element is that of the consequences of the passage from the formal to the real domination of capital¹⁰. The effect was that of eliminating the barriers between the different spheres of production, circulation, and consumption to the benefit of a single process of reproduction, valorization, and accumulation, at the national level. It is a matter, therefore, of a global process of the valorization of capital that renders null and void the definition of social classes that prevailed in

⁸ "Globalisation and the historic course", 13/02/2002, www.geocities.com/wageslavex/globahc.htm

⁹ Id.

¹⁰ ESCHENBURG R., DABROWSKI M. (Hrsg.): "Konsequenzen der Globalisierung: Ökonomische Perspektiven für Lateinamerika und Europa", Band 6, LIT, Münster, 1998

earlier stages of capitalism, where there were clearly defined lines between blue collar workers and capitalists, large and small. Lazare, a co-worker at “International Perspective” said:

*"The capitalist class is no longer defined as an ensemble of individual owners of the means of production, but as a social entity, collectively directing the process of the valorization of the national capital, and which includes both the individual owners of the means of production, as well as bureaucrats who are owners of the means of production only indirectly, as representatives of the state. Similarly, the working class is no longer defined as an ensemble of individuals providing productive labor, but as a social entity whose collective labor valorizes capital."*¹¹

A second element is the context of globalization, which further accentuates the global collective character of this process. In this sense we face a contradictory movement¹²:

- on the one hand, this movement leads to the integration and development of production on an international scale, distributed over a proletariat situated in many diverse, complementary sectors and different countries, and,
- on the other hand, it provokes an intensification of competition between the workers, because of the constant threat of delocalization permitted by the current mobility of production, as well as the difficulty in perceiving the links that unite workers, beyond sectors or countries.

Anxiety about globalization also exists in advanced economies. How real is the perceived threat that competition from "low-wage economies" displaces workers from high-wage jobs and decreases the demand for less skilled workers? Are the changes taking place in these economies and societies a direct result of globalization?

¹¹ LAZARE M.: "The Recomposition of Classes under State Capitalism," International Perspective N° 15, 2000

¹² "Globalisation and the historic course", 13/02/2002, www.geocities.com/wageslavex/globahc.htm

2. *Employment and Globalization*

Economies are continually evolving and globalization is one among several other continuing trends. One of these trends is that as industrial economies mature, they are becoming more service-oriented in order to meet the changing demands of their population. Another trend is the shift toward more highly skilled jobs. Most probably these changes would be taking place with or without globalization, even though not necessarily at the same pace. In fact, globalization is actually making this process easier and less costly to the economy as a whole by bringing the benefits of capital flows, technological innovations, and lower import prices. Economic growth, employment and living standards are all higher than they would be in a closed economy.¹³

But the gains are typically distributed unevenly among groups within countries, and some groups may lose out. For instance, workers in declining older industries may not be able to make an easy transition to new industries.

What is the appropriate policy response? Should governments try to protect particular groups, like low-paid workers or old industries, by restricting trade or capital flows? Such an approach might help some in the short-term, but ultimately it is at the expense of the living standards of the population at large. Rather, governments should pursue policies that encourage integration into the global economy while putting in place measures to help those adversely affected by the changes. The economy as a whole will prosper more from policies that embrace globalization by promoting an open economy, and, at the same time, squarely address the need to ensure the benefits are widely shared. Government policy should focus on two important areas:

¹³ “Globalization, Growth and Poverty: Building an Inclusive World Economy”, 22/04/2002, <http://econ.worldbank.org/prr/subpage.php?sp=2477>

- education and vocational training, to make sure that workers have the opportunity to acquire the right skills in dynamic changing economies; and
- well-targeted social safety nets to assist people who are displaced.

Concerning the job creation in developed countries there has to be said that among the ten major developed countries, the total number of jobs has increased considerably since 1970 only in the United States, Japan and Canada. It is no wonder that these are exactly the countries that have the most advanced technological production systems, so that especially here the structural change was obvious: developed economies have lost jobs in manufacturing, agriculture but they have become very dominated by the service sector and lately by activities in the high tech area.

2.1. The Problem of Unemployment

Conventional economic wisdom deals with the labor-market in a way that it is common to any other commodity: within the labor market a proper labor price (wage) has to equalize the demand for labor with the labor supply. As in any other market, the occurrence of disequilibrium - which in this case means unemployment - can be avoided by price (wage) flexibility which can always clear the market. In this framework, unemployment is always voluntary, since it depends on the wage viscosity: workers and unions do not accept a wage decrease and so unemployment persists.

The issue of unemployment is a theme which raises concern on the part of governments and citizens, especially because it is an aggravating factor in the process of deepening inequality and social exclusion.

Even the developed countries are not immune to the problem of unemployment. Among OECD member countries, unemployment rose by a factor of three between 1970 and 1992, according to data published in a 1993 UNDP Report on Human Development. And as a consequence of migratory movements, the problems of unemployment, both in the North and in the South, began to interconnect more clearly. Because they feared the situation would worsen even more, countries in the North began to "react" to the process of globalization¹⁴.

Technological innovations represent the major factor for profit differentials and job opportunities in the global markets. Innovations in general are capital intensive and require huge investments of intellectual capital. But in the context of global competition already wealthy organizations can afford to do high investments in the field of research and development (R&D), so that innovations deepen even more the gap between the quality of jobs (as there are higher requirements for education, skills and better payment) in the core countries and the periphery of the global economic system. The tensions in the global labor markets will be sustained and strengthened as there can be noticed the growing concentration of knowledge-based economic activities in "global cities" with the simultaneous marginalization of work force and declining job opportunities in the global "rural areas"¹⁵.

In industrial countries the labor market knew an accentuated dynamics: there could be noticed a diminution of the workforce occupied in the primary economic sector (agriculture and mining industry), also from the second sector (production) in parallel with the increasing of new job possibilities in the third sector (services) and in the field of scientific research and information technology¹⁶.

¹⁴ PIANTA M.: "Unemployment, Structural Change and Globalization: Unemployment and Aggregate Demand", 26/01/2002, <http://www.itcilo.it/english/actrav/telearn/global/ilo/art/1.htm>

¹⁵ GENOV N.: "Risks of Unemployment: Global, regional and National", 10/12/2001, www.fes.de/fulltext/bueros/sofia/00621001.htm,

¹⁶ PIANTA M.: "Unemployment, Structural Change and Globalization: Unemployment and Aggregate Demand", 26/01/2002, <http://www.itcilo.it/english/actrav/telearn/global/ilo/art/1.htm>

Another important trend in labor markets especially in advanced economies has been a steady shift in demand away from the less skilled toward the more skilled. This is the case however skills are defined, whether in terms of education, experience, or job classification. This trend has produced rises in wage and income inequality between the more and the less skilled in some countries, as well as unemployment among the less skilled in other countries.

The dynamics of technological innovations and market fluctuations bring new patterns of work organization and employment.

2.1.1. Theoretical Approach of Unemployment

In order to understand why unemployment represents such a serious problem, we should get familiarized a little bit with the different concepts of unemployment during the last centuries, when brilliant economists changed with their theories the way of analyzing the economic environment. I'll try to explain briefly how unemployment was defined in its evolution.

The notion of unemployment is quite old. Thus in France, in the census of 1896 the status of an unemployed person was for the first time mentioned¹⁷.

For the English classical economists at the end of the 18th century (Adam Smith, Malthus, David Ricardo) labor is a good like any other that is object of exchanges taking part on a market, so that its price is a function of supply and demand. Only in the case that these two dimension do not correspond, unemployment will appear. In fact the neoclassical theory accepts or recognizes only two reasons for people being unemployed: the voluntary and the transitional unemployment. People who wanted to work, could find a job, as the labor market fulfilled the conditions of transparency and flexibility for full employment.

¹⁷ SALAIS R., BAVEREZ N., REYNAUD B.: «L'invention du chômage », Coll. « Economie en liberté », Presses universitaires de France, Paris, 1986 (Causes for unemployment were: sickness or invalidity, ordinary slack time, accidental loss of the job)

In the beginning of the 20th century, John Maynard Keynes developed a new theory regarding the mechanisms on the labor market and unemployment. He tried to explain the connection between the demand of goods and services on the commodity market and its effects on the labor market. If an enterprise has many orders to fulfill (that means that the demand on the commodity market is high) it will employ more people and will also pay higher wages. According to Keynes, unemployment is an eminently involuntary phenomenon and is fundamentally determined by the level of the effective demand, on which wages have little influence, but which can be influenced by the intervention of the state through public investments, tax reduction and increase of household income¹⁸.

The criticism of Keynesian views and policies developed since the 1970s has turned into a new orthodox perspective where a "natural rate" of unemployment is accepted, set by the structure of the economy and labor supply¹⁹ and a "non-accelerating inflation rate of unemployment" (NAIRU) is defined as the rate after which a reduction in unemployment has the effect to increase prices. The focus is therefore turned on the functioning of the labor markets; the fear that an active demand policy might start off inflationary pressures is the main reason for abandoning traditional Keynesian policies.

Obviously, labor market mechanisms and demand factors, as well as technological change and the structure of the economy, all contribute to the explanation of the current unemployment problems. However there is no conclusive evidence on whether unemployment is mainly linked to labor market conditions or is resulting from insufficient demand²⁰. In his paper written for the International Labour Organization (ILO) Michele Pianta expresses his opinion that the weakening of

¹⁸ HOLCMAN R.: "Le chômage: Mécanismes économiques, conséquences sociales et humaines", La documentation française, Paris, 1997

¹⁹ FRIEDMAN M.: "The role of monetary policy", American Economic Review, March 1978

²⁰ COEN R.M., HICKMAN B.G.: "Is European Unemployment Classical or Keynesian?", American Economic Review, 1988, vol.78, 188-93

demand in most economies would suggest that some of the current unemployment may be of "Keynesian" nature, and therefore might be reduced by expansionary policies²¹.

2.1.2. Back to Reality: What Does Unemployment Mean Nowadays, in the Time of Globalization?

Let's take a look back in time, in the period between 1765 – 1873, well known as the era of the first Industrial Revolution or the Triumph of the Capitalism²². Why did I choose this period? As a consequence of the scientific and technological progress there were many crucial innovations (i.e. steam engine, water-frame, spinning jenny, railway) that reduced the dependence on physical work of man. The rising problem of unemployment (as a consequence of the Industrial Revolution) was quite easily solved by the colonization of poorer people and the emigration of the exceeding population towards lowly populated territories (for example millions of Italians migrated in the USA and Argentina). The Informational Revolution goes further by reducing the dependence on our senses (ears, eyes, brain) and hence increasing the level and dynamics of issues as unemployment, inequality, social exclusion, linked to the labor market. This new technological revolution demanded changes also on the level of the work organization, characterized by flexibility and a higher degree of knowledge (interdisciplinary education in order to be more flexible, to have the ability to adapt to the changes in the different fields of economy).

If primary capitalism relied on the exploitation of labor, nowadays it relies on the exploitation of responsibility. What I want to argue by this is that in the past the employees of an enterprise contributed to the effective realization of production, whereas nowadays their role, their function within the organization changed

²¹ PIANTA M.: "Unemployment, Structural Change and Globalization: Unemployment and Aggregate Demand", 26/01/2002, <http://www.itcilo.it/english/actrav/telearn/global/ilo/art/1.htm>

²² VINDT G.: "500 ans de capitalisme", Éditions Mille et une nuits, Paris, 1998, p. 32ff

radically. They contribute directly to the company's financial results, as there was a passage from the simple processing of operations towards participation and division of responsibility. This development was the consequence of the changes that occurred in the world economy in the time of economical globalization that has major effects on the labor market.

Unemployment and the loss of jobs in developed countries is quite commonly associated with globalization. The main arguments that the impact of globalization is negative are following²³:

- The effect of delocalization: multinationals have exported jobs from developed countries to developing countries through foreign investments and outward production in special economic zones (see more chapter 2.2.2. Export Processing Zones)
- Through trade liberalization, governments have encouraged the replacement of domestically produced goods with goods produced abroad. e.g. The mining industry from the Ruhrgebiet in Germany received subventions so that the price of German charcoal could compete with that of American coal. Nowadays these subventions were reduced, so that the price of German charcoal is almost 60% higher than that of American. Under these circumstances, the German mining industry has lost in efficiency and has to be restructured.
- The increased application of technology, especially in globally operating companies, can reduce the use of and dependence on labor. This affirmation is quite disputed. On the one hand it is said that due to technology tasks are cut, but it allows on the other hand to create new jobs or at least reorganize one's working time increasing efficiency.

²³ These arguments can be found for example in International Federation of Chemical, Energy, Mining and Factory Workers (ICEM), Globalization and Social Policy.
Also ICFTU: The Global Market: Trade Unionism's Greatest Challenge.

An opposing viewpoint, set by the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD), is that globalization (e.g. through foreign investment, trade, new technology and liberalization) contributes to growth, which is the key to employment. Unemployment, it is argued, would be mainly due to governments' failure to adopt sound macroeconomic and labor market policies.

The changes occurred on the labor market had no major effects on the global unemployment but rather on national level. In order to reduce the threatening phenomenon of unemployment, there is a tendency towards part-time or temporary work. These trends of rationalization of work organization and employment come at the expense of the less educated and trained segments of the workforce; these are likely to remain long-term unemployed, as global restructuring is moving the labor force from one sector of economy to another and they are not flexible enough to cope with the new situations.

It would be wrong to assume that developed countries are less affected by the problem of unemployment. Among the OECD member countries unemployment rose by a factor of three between 1970 and 1992, according to data published in a UNDP Report on Human Development²⁴.

Unemployment is fundamentally a so-called “house made” phenomenon, regardless whether it has cyclical or structural causes.

Structural unemployment is an extremely serious problem which emerges because the labor supply in a region, a certain economic field or for a specific qualification can not be adapted to the work demand. It can also be the consequence of the loss of competitiveness of certain sectors of the economy which were formerly protected by

²⁴ “The Impact of Globalization on Developing Countries: Risks and Opportunities”, 03/12/2001, www.planalto.gov.br/publi_04/COLECAO/IMPACT3.htm:

tariff or non-tariff barriers and the enormous productivity gains per work unit²⁵ (example of mining industry in Germany).

It is true that crises in general cause a decline in the demand (i.e. the crisis in Asia from 1997/1998 had some repercussions on the European demand), so that indeed one can argue that globalization contributes to a certain extent and temporarily to the emergence of structural unemployment. However, the real sources of unemployment are to be found either in a weak aggregate demand or on the side of labor supply.

Long-term unemployment is one of the most persistent, and in quantitative terms, serious social issues facing many industrialized economies. In Spain, for example, the unemployment rate is one of the highest within the EU-15 (ca. 20%), but the real problem is represented by the high percentage of the long-term unemployment (50 %), as share of the unemployment rate. This means that half of the unemployed persons were looking for a working place, but they did not find any new job and the probability they would find one in the near future is quite low. Nowadays, when education and qualification are key factors on the labor markets, the low-qualified that loses his job has less chances to get a new one, comparing to his higher-qualified neighbor. Nowadays it can be noticed that *long-term unemployment* as share of total unemployment is growing. In the past there were practically no long-term unemployed persons, at least not involuntarily. Nowadays, with the development of technologies and the increasing request of high-skilled, experienced workforce it becomes more difficult to find a new workplace. Especially if one does not dispose over some competitive advantage, such as higher education skills, qualification that are the key factors on the labor market of our days. Thus unskilled people are more likely to have to quit the labor market may be sooner and even unwillingly.

²⁵ TRABOLD H.: "Gesellschaftliche Auswirkungen internationaler Wirtschaftsentwicklungen", Informationen zur politischen Bildung Nr. 263/1999

Compared to the early 1970s, unemployment rates are now higher in almost all developed countries. In the 1990s, overall unemployment in OECD countries rose from its already unacceptably high level, the number of unemployed persons being 36 million. Especially grim have been developments in Europe. In OECD countries in North America and Oceania, unemployment rates remained under the average OECD unemployment rate though they increased slightly, yet less than in Europe in recent years. In Japan, the unemployment rate has traditionally been much lower than in other OECD countries, but it started to rise in 1992. (Annex 1: OECD Standardised Unemployment Rates). By the end of the year 2001, unemployment in the OECD as a group decreased to 6,8% , while it rested quite high (8,4%) in European OECD countries. In Eastern Europe unemployment averaged 11.8%, while the European Union average was 7,7 %, lower than in the Euro-zone (8,4%)²⁶ (Annex 2: Standardised Unemployment Rates – December 2001)

Compared to most developed countries, which experienced a steep rise in unemployment in the early 1990s, the developing countries in APEC (the Asia-Pacific Economic Cooperation) have maintained very low unemployment on a consistent basis²⁷.

Most workers who lose their jobs due to liberalization will find new employment opportunities, but there is typically a period of active search before such opportunities are found. Indeed, some workers may find that they have to re-tool before qualifying for employment in growing sectors. At the other end of the spectrum, some workers with little training and little innate ability may find themselves facing employment prospects so bleak that they choose to exit the labor force.

²⁶ OECD Standardised Unemployment Rates, December 2001

²⁷ APEC, Economic Outlook 1997

2.2. The Effect of Delocalization

The transformations in the “area of the global technology” are remarkable. The changes in the communication field made it possible for multinational enterprises to create the premises for the technology transfer from one country to another. Thus it was possible for them to export not just know-how but also jobs in regions that offered the best opportunities in order to produce very cheap.

2.2.1. Delocalization of Work

Globalization implies the phenomenon of delocalization, that means that resources are requested and transported from a place to another on the earth depending on the convenience. This wouldn't be practicable without the increasing transparency of the markets all over the world due to the possibility of quick communications (nowadays mostly through Internet as most rapid way of transferring information). By the way, it can be noticed how informatics' techniques make delocalization of virtual work possible, moving it quickly from a zone to another in the world, always following the mechanism of demand and supply and price²⁸. In this case the function of internet is not just to make information pass from companies towards the workforce but has an effect on determining and reinforcing work demand. Thus we could say that the Internet offers the necessary premises for a virtual global market. At the same time, the number of Internet hosts continued to climb, growing by 44 percent in 2000. Yet this expansion was substantially slower than in earlier years and about one-third less than the explosive growth in 1999, a boom year for Internet-related businesses. In

²⁸ LUBRANO F.: “Delocalization: What is it?”, www.delo.com/delocalisation.htm

part, this slowdown reflects the downturn in the dot-com economy, but it may also have to do with saturation in some key markets²⁹.

The consequence of the liberalization of the world trade was that commercial relations among corporations intensified and multiplied. As a consequence of the learning effect and product standardization (following the principles of economies of scales), productivity could be increased and influenced thus the level of salaries and wages. But despite the increasing level of FDI and the progresses in technology, that made it possible that the benefits issued by the capital rose by more than 50 %, the real wage income knew a small increase of circa 2 % (in industrialized countries up to 15 %). Analyzing this relation it becomes obvious that labor as a source of wealth becomes cheaper and capital more expensive, as the globalization process is characterized by the augmentation of the “laborless” capital productivity.

2.2.2. Export Processing Zones

When you buy a pair of trousers or of sports shoes, a beautiful dress, a CD-player or calculator, there are chances that the item was made in an export processing zone (EPZ). In EPZs many other goods are made by enterprises operating under a special legal regime governing the establishment and running of certain export-oriented companies. The term "zone" gives the impression that the reference is to a clearly defined territorial area. However, this is not always the case. Governments have different arrangements for granting EPZ-type privileges. Some give them only to companies located in territorial enclaves separated by walls or fences from the rest of the country (i.e. in the Dominican Republic). Others, such as those in Barbados and Mauritius have no zones. The advantages are granted to companies producing mainly for export, regardless of where they are located. There are countries (Costa Rica,

²⁹ “Globalization's Last Hurrah?”, Foreign Policy Magazine, January / February 2002, www.atkearney.com

Cameroon or Sri Lanka), which have enclaves as well as a system of granting EPZ status to export-oriented companies operating outside of those limits. Also the economic and social importance of EPZs varies considerably from country to country.

EPZs are special economic zones (SEZ), defined as a delimited geographical area in any part of a country, which benefits from special investment-promotion incentives, including exemptions from customs duties and preferential treatment with respect to various fiscal and financial regulations³⁰.

2.2.2.1. The Role and Place of Multinational Enterprises in Export Processing Zones

Most export processing zones were originally set up to promote exports and employment, and little attention was given at the time to the social problems posed by EPZs, to the role played by MNEs or to the backward linkages of EPZs with the local economy.

EPZs give entrepreneurs the opportunity to internationalize their operations by locating the labor-intensive production segments of their global commodity chain or service activities offshore. Countries with large supplies of labor that is relatively low-cost regardless of the levels of skills and qualifications, are the best candidates for such industrial relocation³¹.

The share of the manufacturing employment in EPZs reaches high levels. The greater the share of EPZ employment, the more sensitive the host country will tend to be to the role played by MNEs and the social conditions in EPZs.

Contrary to a widely held belief, MNEs are not necessarily the largest or at least the only investors in EPZs. Fully-owned foreign affiliates represent only a minority of

³⁰ “Export Processing Zones: The social and labour issues”,
http://www.transnationale.org/anglais/sources/tiersmonde/zones_franches_ep2_multi2.htm

³¹ “Economic and social effects of Multinational Enterprises in Export Processing Zones”,
<http://www.ilo.org/public/english/employment/multi/research/epzecsoc.htm>

the enterprises in EPZs, and joint ventures a small majority (circa 38%). One of the major characteristics of EPZs is the emergence of investors from Third World countries. These Third World MNEs account for between 16 and 22 per cent of all foreign investors in EPZs.³²

2.2.2.2. Why Do Governments Opt for EPZ Regimes

There are several considerations for the reasons governments are promoting the establishment of EPZ.

One of these is *job creation*, particularly in depressed regions. In fact, there are governments (e.g. Costa Rica) that even offer added incentives to encourage investors to set up factories in relatively less developed parts of the country (in the case of Honduras, the settlement of export-oriented plants has turned small villages into active towns)³³.

Another cause for sustaining EPZs is the *need to attract foreign direct investments* (FDI) in export-oriented industries. As multinationals from industrialized market economy countries and small and medium-sized enterprises (SMEs) from dynamic Asian economies invested offshore, this need has been largely achieved. Not to forget about joint ventures with local enterprises which are also fairly widespread.

Related to this, is the desire to *increase foreign exchange earnings and promote exports*. The progresses achieved in this sense are quite impressive. In some developing countries which previously depended on the production and export of one or two agricultural or mineral commodities the manufacturing-led economic diversification was well-established.

Finally, domestic governments of countries where there are EPZs have the expectation that the production technologies and organizational know-how

³² Id.

³³ “Export Processing Zones: The social and labour issues”,
http://www.transnationale.org/anglais/sources/tiersmonde/zones_franches_ep2_multi2.htm

introduced by foreign investors would contribute to the *upgrading of workers' skills*, in order to increase the wage level. That will lead to the augmentation of the purchasing power. Thus the aggregate demand would augment and have a positive effect on employment and on the economic growth of the host country.

Governments of host countries are convinced that the presence of efficient foreign enterprises would have a demonstration effect on indigenous firms and that positive technological spillovers would be facilitated by the *fostering of linkages* between foreign and local enterprises and industries.

The experiences with EPZs have been mixed, as they were introduced in countries with very diverse political and economic settings. There are countries that have realized at least some of the goals, but there are others in which the offer of low-cost labor, generous concessions and enclaves with modern facilities have not outweighed other economic and political factors that have made potential investors wary of either setting up or expanding business. The biggest dissatisfaction is when it comes to skill formation and linkages with local industry, because the expectations of most host countries are still largely unfulfilled³⁴.

2.2.2.3. The Employment Effects: Job Creation

The number of EPZ locations worldwide has grown very impressively since 1960, when the first modern zone - the Shannon Free Trade Zone in Ireland was established. In 1970, there were ten host countries; by mid-1995 there were about 110 EPZs in at least 70 countries, and hardly a month goes by without the government of yet another country announcing its interest in either setting up or expanding such zones³⁵.

³⁴ "Export Processing Zones: The social and labour issues", http://www.transnationale.org/anglais/sources/tiersmonde/zones_franches_ep2_multi2.htm

³⁵ Id.

If there is one field in which EPZs have had indisputable positive effects on some host economies, this is unquestionably *employment*.

In the period between 1975-1986 there were created around 750.000 jobs by EPZ industries. Of the approximately 1.25 million jobs created in the EPZs between 1970 and 1986, approximately 850.000 can be attributed to MNEs.³⁶

Let's have some examples.

➤ **Mexico**. In 1965 there was introduced the Border Industrialization Program. Already one year later, there were 24 enterprises with more than 6000 employees. Ten years later 76.000 persons had jobs in the 455 enterprises in operation, and in mid-1995, there were over 2.000 plants with a total staff of around 610.000. Jobs in maquiladoras grew at an average annual rate of 13 % between 1983 and 1993, and they account for about 18 per cent of all jobs in manufacturing. Moreover, it is expected that some 200 more enterprises will be established, generating an additional of 50.000 jobs³⁷.

➤ **China** is an exceptional case. It has five special economic zones (SEZs), numerous coastal cities, economic and technological zones and other districts governed by EPZ regimes. About 80 % of total committed FDI is destined for the coastal cities and provinces. The activities carried out (e.g. construction and various services) are not all destined for export, like it is the case in other EPZs. This fact and the huge size of areas involved in the EPZ-industry set the Chinese experience apart from those of other countries. By the end of 1995 the number of foreign-invested companies was supposed to have reached the number of 220.000; the workforce in Guangdong (the fourth largest province in terms of population which received about one-third of FDI commitments) was said to be about 10 million. In Shenzhen (the

³⁶ "Economic and social effects of Multinational Enterprises in Export Processing Zones", <http://www.ilo.org/public/english/employment/multi/research/epzecsoc.htm>

³⁷ "Export Processing Zones Development Authority", <http://epzdanet.intnet.mu/epzda/indexepzda.htm>

largest SEZ in Guangdong Province with an area of 327.5 sq. km.) there were at least half a million workers in 1992 - the most recent year for which comprehensive data are available. Definitely, the number must have risen significantly since that time³⁸.

➤ In *Africa*, the largest number of workers in export-oriented enterprises are in Egypt, Tunisia and Mauritius. Four other African countries in which the zones set up during the early 1990s, have started generating some employment, are Cameroon, Kenya, Madagascar and Togo. Of these "newcomers", the most significant number of jobs created are in Madagascar, as the investments coming from Mauritius increased. In Mauritius labor is scarce and wages therefore high, so that investors were attracted to shift towards Madagascar³⁹.

Although in absolute terms the number of jobs created may be quite impressive, the impact on joblessness at national level has been much less. There was only one exception in the case of Mauritius where the EPZ program made it possible to attain almost full employment in the 1990s after an unemployment rate of around 20 % in 1970. Therefore Mauritius is frequently cited as an example of outstanding growth of employment in EPZs.

However, in many host countries there are still double-digit levels of unemployment. On the other hand it could be argued that without the zones which have had noticeable employment effects the situation in a number of countries might have been much worse.

The two most important EPZ industries are electronics, and textiles and garments. Both in industrialized countries and in EPZs these industries employ a very high proportion of women.

Between 1975 and 1986, some 200.000 new jobs have been created in the textile and garments industries of EPZs in developing countries, which is considerably less than

³⁸ Id.

³⁹ Ibid.

the approximately 400.000 jobs lost in these industries in the OECD countries. Of these 200.000 new jobs, around 130.000 have been created by MNEs and could represent jobs relocated from the industrialized countries⁴⁰.

Very significant was the share of new manufacturing employment. Since 1970, over 60 % of all new manufacturing jobs in Malaysia and Singapore have been created in EPZs. For the Dominican Republic, the corresponding figure is above 30%, and for Mexico around 20%. In Mauritius, the near totality of new manufacturing jobs can be attributed to EPZ industries.

On the other hand, EPZs also generate jobs indirectly through the local expenditure of the wages and salaries paid to EPZ workers. Unfortunately, comparable data on the indirect employment effects of EPZs are not available. Some estimates indicate that these indirect employment effects are slightly higher than the direct employment effects. In this context, some research led to the conclusion that for every five jobs in a zone, one is generated indirectly in enterprises supplying goods and services to the zone. For Mauritius, the estimated ratio was 4 to 1; and it can be substantially higher in situations where garment companies subcontract to home workers and small locally owned establishments⁴¹.

2.2.2.4. Labor Conditions and Relations

It is difficult to evaluate the social performance of enterprises in EPZs because of lack of data, the absence of mutually acceptable points of comparison and the sensitive nature of issues as union rights, length of working time or quality of labor relations.

⁴⁰ “Economic and social effects of Multinational Enterprises in Export Processing Zones”, <http://www.ilo.org/public/english/employment/multi/research/epzecsoc.htm>

⁴¹ “Export Processing Zones: The social and labour issues”, http://www.transnationale.org/anglais/sources/tiersmonde/zones_franches_ep2_multi2.htm

Wages, working conditions (including safety and health) and labor relations are the three areas in which there has been the most criticism about the situation of workers in EPZs. In this context, EPZs are known as "*zones of oppression*", "*links in the chain of exploitation*" or "*danger zones*".⁴²

➤ **Wages**

A firm's decision to invest in an EPZ is not determined only by the cost of labor, but also by such factors as the overall quality of the labor force and the political stability of the country and the region in which the EPZ is located. But it is true that the labor cost is an important factor taken into consideration. How else could someone explained the fact that wages are extraordinarily low by international standards? It is true that wage level reflects generally the overall level of development of a country, but when these industries trade most of their output on the world market, wage levels become an extremely important element in the competitiveness of EPZ host countries relative to one another.

EPZ industries tend to be extremely competitive internationally as they combine the low wages of the host country with the organizational and technological advantage of the MNEs. Even more, it is still a question mark if this competitiveness is not further enhanced by the fact that EPZ industries do not meet certain basic rules and principles pertaining to the length of working time, night work for women, safety and health⁴³.

And apart from that, the non-ratification by certain countries with important EPZ industries of a number of international labor conventions could stand as proof that their EPZ enterprises are in fact enjoying an unfair competitive advantage over the countries and enterprises that comply with these international standards.⁴⁴

⁴² Id.

⁴³ Export Processing Zones Development Authority, <http://epzdanet.intnet.mu/epzda/indexepzda.htm>

⁴⁴ "Economic and social effects of Multinational Enterprises in Export Processing Zones", <http://www.ilo.org/public/english/employment/multi/research/epzecsoc.htm>

Regarding the wage rates, not all countries have statutory minimum wages. In some countries, EPZ administrations either prescribe or recommend minimum wages (e.g. Pakistan, Sri Lanka and the United Arab Emirates), which may differ from one zone to another. Average monthly wages which generally include bonuses, allowances and overtime pay, can vary widely within a given zone or EPZ host country.

The difference between the lowest and highest average monthly wage can be as little as 20 %, as is the case in Panama, as much as 66 % (e.g. China) or even over 150 % in El Salvador and Kenya⁴⁵.

However, for the most part, MNEs pay more than the minimum set by government or the zone administration, and in most countries average monthly wages are said to be higher in the zones than in other comparable firms.

Statistics on wages in EPZs compared to local industries suggest the existence of an "EPZ salary life cycle". That means that in its early days, an EPZ generally offers wages which are higher than other local wages. But, as the EPZ develops, the wage differential gradually decreases and after ten or 15 years, it is quite frequent that wages in EPZ industries are even lower than other local wages.

➤ **Working conditions**

The majority of the MNEs and other enterprising operating in EPZs take into account and follow the principles of the ILO's Tripartite Declaration. As a result, generally working conditions in most EPZs are either similar to or better than those in comparable manufacturing enterprises in areas outside the zones.

But there are also employers in export-oriented factories that have undesirable practices for their employees. Studies have revealed that it concerns either a minority of the firms in operation or firms originating from a specific region of the world. For example, a research in Honduras, where 7.200 labor disputes in EPZ factories were

⁴⁵ "Export Processing Zones: The social and labour issues",
http://www.transnationale.org/anglais/sources/tiersmonde/zones_franches_ep2_multi2.htm

recorded in less than three years, showed that the majority of those disputes involved foreign enterprises from non-OECD countries. In the other firms, workers, even without being unionized, were much better paid, they received adequate food and transport allowances and enjoyed amenities and working conditions of a high standard.⁴⁶

A contentious issue in EPZs has to do with hours of work, overtime and rest periods which are regulated either by the national laws or rules established by EPZ authorities. But in some factories standards concerning normal working hours, shift work and overtime are not respected. Workers in EPZs usually work much more hours than workers in the highly industrialized countries, but the length of their working week is generally rather similar to that found in other industries. There are many casual workers, contract labor and workers with no job security because they have no written contract, so that they feel constrained to work overtime and double shifts, even when such requirements become excessive for fear of not losing their job.

Typical for EPZs is the high proportion of women in the workforce. In many host countries the EPZs have made it possible for women who are heads of households, for those active in the agricultural sector and school-leavers with very few job prospects, to find paid employment in industry. Employers prefer women in the production process, since it is believed that manual dexterity, patience and other "gender-specific attributes" make them more suitable than men for carrying out tasks that are repetitive and demand attention to detail. Another viewpoint is that women workers are preferred because they are considered less likely to press demands for

⁴⁶ "Export Processing Zones: The social and labour issues",
http://www.transnationale.org/anglais/sources/tiersmonde/zones_franches_ep2_multi2.htm

better pay and working conditions (as they have little or no knowledge of, and experience with trade unions). But this supposition is not generally accepted.⁴⁷

➤ **Labor Relations**

Unionization rates in EPZ industries are supposed to be very low. The banning of trade unions in certain zones and the tensions surrounding efforts to organize workers in others, have certainly heightened interest in labor relations in EPZs. Workers have difficulties in forming and joining unions of their choice for several reasons of legal, political and sociological nature.

Workers may be prohibited from joining unions or engaging in any form of trade union activity (Bangladesh, Pakistan whereas in the Philippines there is only an express prohibition against strikes in EPZs). Sometimes this is the initiative of the government, whose aim is to create a more attractive investment climate. Even if it is allowed to organize trade unions, the requirements to be fulfilled by unions before they can be registered are very strict. For instance, a union may need to have support from 50 per cent of the members of a bargaining unit in order to be recognized, otherwise its recognition is not granted without the absolute majority.

This could be one explanation for the low percentage of unionized workers in EPZs. In order to exclude the possibility for joining other external workers' organizations some enterprises promote in-house arrangements such as "worker participation groups", "worker-management committees", "solidarity associations" and "company unions", which have little or no links with independent workers' organizations.

Above this, there is not a widely spread interest in organizing workers or becoming unionized, as such activities are perceived as an additional risk to job security (also due to the fate of many who have tried it before).⁴⁸

⁴⁷ Id.

⁴⁸ "Export Processing Zones: The social and labour issues",
http://www.transnationale.org/anglais/sources/tiersmonde/zones_franches_ep2_multi2.htm

As a brief remark there can be added that the decisive factor for better pay and working conditions is not whether a firm has EPZ status, but whether or not workers are organized. It is a fact that unionized workers covered by collective agreements enjoy better pay and working conditions than those who are not, irrespective of where the enterprise is located (in EPZ or outside of it).

2.2.2.5. The Process of Technology Transfer

EPZs could be considered as one of the first attempts of the internationalization of production. Multinational enterprises that are also operating in EPZ, were looking for areas that offered to them cost advantages. By operating in an EPZ enterprises take advantage of very low labor costs. What their own contribution was concerned, they had to come just with some capital in form of FDIs and improve productivity by means of technology as the workforce used in production process was rather unskilled.

The experiences with EPZs have been mixed. Some EPZs have been much more successful than others. In most cases, success can not be attributed to a single cause as there are more factors influencing and determining the success of the export-oriented business (i.e. wage levels, political stability of host country, quality of workforce, etc.). The exclusive preoccupation with exports and employment promotion represent one of the keys to success for an EPZ. In the same time they are supposed to focus on regional development, social policy or the promotion of technological development.

“As a physical, economic and even social enclave in the host country, the EPZ is perhaps the most achieved mechanism for preventing the development of technological linkages between the foreign firms in the EPZ and the enterprises in the host country.”⁴⁹

⁴⁹ “Economic and social effects of Multinational Enterprises in Export Processing Zones”, <http://www.ilo.org/public/english/employment/multi/research/epzecsoc.htm>

The explanation of this affirmation could be the following.

On the one hand, since EPZs are fully export-oriented (with few exceptions; e.g. China), firms operating in EPZs are not competing with local enterprises and therefore can not have the technologically stimulating effects that are usually associated with MNE subsidiaries.

On the other hand, EPZ firms tend to import all their inputs and therefore they do not have the motivation to build up relations with local suppliers of raw materials, machinery, components or semi-finished goods. But there still exist linkages with local suppliers. Actually, these backward linkages are known to be a potentially very important channel of technology transfer from foreign to domestic firms, as well as a major instrument for building up and developing the technological competence of domestic enterprises.⁵⁰

A further element which hampers the development of linkages between EPZ firms and domestic enterprises is the typical product range of EPZ industries. Usually, this product range has nothing to do with the host country's market requirements, its industrial and technological traditions or its pre-existing technological competence.

Most EPZ industries, furthermore, are not the type of industries with the tendency towards the attainment of multiplier effects on other industrial sectors. With a few exceptions, EPZ firms were never set up to exploit the host country's natural resources.

Very substantial amounts of technology are yet transferred internationally from parent companies to their subsidiaries located in EPZs. The technology thus transferred is essentially production technology of a fairly simple nature.

A very large number of firms in EPZs are joint ventures between MNEs and domestically owned enterprises. In this case, there is a lot of technology, know-how

⁵⁰ Id.

and information transferred from one partner to the other, and notably from the MNE to the domestically owned firm.

Governments realize that if EPZs are to have a catalytic effect on local industry and thereby contribute to the creation of more jobs, then they have to abandon the stage of isolation from the rest of the economy. On the other side, employers' organizations are also rising to the challenges of encouraging EPZ enterprises to build backward linkages and assisting local entrepreneurs to identify new opportunities for doing business with firms in the zones and develop more aggressive export promotion strategies. Thus backward linkages between EPZ enterprises and local industries tend to develop, but this is usually the result of individual initiatives of enterprises rather than the result of government policies to this effect.

EPZ firms also invest in the training of production workers. Anyway, as the employment in EPZ industries has a short-term nature this training is usually rather short, because firms are not willing to do substantial investments in training and professional development.

2.2.2.6. The future of Export Processing Zones

Seldom an innovation proved to have developed exactly along the lines originally envisaged by its originators. In this respect neither the EPZ represents a difference from any other type of innovation.

*“The fear that EPZ firms would be footloose investors turned out to be groundless, and the expectation that EPZs would reduce unemployment proved to be over-optimistic, despite the fact that EPZs contributed to creating a very large number of jobs”.*⁵¹

The initial idea about establishing export-oriented plants in countries with lower production costs was driven by the increasing influence of the globalization process

⁵¹ “Economic and social effects of Multinational Enterprises in Export Processing Zones”, <http://www.ilo.org/public/english/employment/multi/research/epzecsoc.htm>

and all its effects linked to the labor market. The ones inventing this concept of EPZs would probably not have anticipated that EPZs will turn into industrial monocultures (electronics or textiles and garments), or that they would tend to attract second-level multinationals rather than the major MNEs⁵².

EPZs tend to follow the same type of life cycle.

In the first few years, in the “childhood period”, one major industry rapidly develops and will be the dominant industry. As the years go by its relative importance will decline rather slowly.

As an EPZ matures, the share of women workers tends to decline, unionization rates increase, and net exports from the EPZ tend to increase, albeit in a rather irregular way. This process of maturation is marked by the relative decline of fully owned foreign subsidiaries and by the gradual increase of sales by EPZ firms on the domestic market.

The fact that these general trends appear to be common to a large number of EPZs is probably due to the fact that most EPZs were conceived along the same models, and operate in a competitive international environment.

The performance of EPZs can be measured in terms of employment creation, export promotion or technology transfer, but there is no way of assessing what might have happened in the absence of an EPZ, or whether a country might have developed better or more rapidly without such an EPZ.

In this sense one could ask a question of equity and economic democracy: What would have happened if domestic enterprises would have benefited from the incentives and special benefits accorded to foreign companies investing in an EPZ? Might they not have had equally positive effects on domestic enterprises?

But there is no way of verifying this alternative situation hypothesis.

⁵² Export Processing Zones Development Authority, <http://epzdanet.intnet.mu/epzda/indexepzda.htm>

The original concept of the EPZ as an industrial enclave working predominantly for exporting all the produced goods was anticipated to rapidly reach its natural limits, if successfully implemented. Thus, from its territorial conception it would tend to evolve towards a non-territorial conception. In this evolution the ultimate stage is the appearance of the "export processing country", where the whole territory has in fact become one vast EPZ (Mauritius for instance)⁵³.

Another line of evolution is the transition from export processing to import processing.

This parallel evolution (from export processing "zone" to export processing "country", and from "export" processing to "import" processing) is giving an entirely new dimension to the EPZ: it is becoming the central instrument for facilitating the transition from import-substituting industrialization to an open market more competitive type of industrial development. In this perspective, the EPZ could have the same policy importance as the development of tariff barriers aimed specifically at protecting and promoting the growth of infant industries in a newly industrializing country.⁵⁴

⁵³ Export Processing Zones Development Authority, <http://epzdanet.intnet.mu/epzda/indexepzda.htm>

⁵⁴ "Economic and social effects of Multinational Enterprises in Export Processing Zones", <http://www.ilo.org/public/english/employment/multi/research/epzecsoc.htm>

Chapter 2 Microeconomic Aspects of Globalization: Business and Human Perspective

As I have mentioned in the first part of my dissertation, regional economic integration is a driving factor of the globalization process. Another aspect is that multinational enterprises (MNEs) are actors, subjects of globalization. Thus there must be a link between MNEs and regional economic integration.

First of all, economic integration creates larger markets and greater opportunities for the enterprises doing business in the region.

Great opportunities consist in the free movement of goods and services, the harmonizing of product standards, simplification of taxes and regulation that allow for companies to realize cost savings. The opportunity for specialization by location and a more efficient operation will enable companies to realize large economies of scale by centralizing or optimizing production activities based on regional advantages. Lower trade barriers and investment barriers will be followed by more price competition and stronger incentives to cut costs and to increase efficiency⁵⁵.

⁵⁵ “Issues in Global Trade and Finance: Notes, Summaries and Questions”,
<http://www.biz.aum.edu/economics/GlobalG/GlobalTradeNotes.htm>

Thus it is possible for companies to create a cost and skill mix in order to obtain the best possible results for their business. The advantages due to factor endowments or assets tied to specific location, combined with the company's unique know-how result in a significant competitive advantage⁵⁶.

1. Multinational Enterprises, Actors of Globalization

In the nineties, a decade when time and space lose their meaning because of the radical changes in technology, communication, transportation and financial movements, multinationals should already have or at least develop a global vision. It needs an integration in the worldwide level of activities and targets of enterprises having to supply to always more global demands but also having to satisfy purchasers' eventual particular requirements: "think global, act local" is the new motto, from which the neologism "glocal" derived⁵⁷.

This is the period of the emergence of a global customer market as an effect of spreading commodities of already all over the world consecrated firms (for example BMW cars, Nestlé sweets, Bayer chemical products, McDonald's fast food etc.). Japanese companies, as Toyota, Honda, Mitsubishi and Isuzu, established assembly centers for their automobiles in Thailand for example, whereas American enterprises founded subsidiaries above all in South Eastern Asia.

Anyway, these were one of the first attempts of creating a global enterprise, by expanding its activity in markets abroad. Arriving at this stage it is inevitable to ask yourself: Which are the causes that have led to the appearance of global enterprises? Which are their advantages on the markets, that are more globalized, compared with the national companies?

⁵⁶ Id.

⁵⁷ LUBRANO F.: "Delocalization: What is it?", 13/02/2002, http://www.ecom.unimelb.edu.au/acib/pdf%20files/dis_01.pdf

The goal of each enterprise is to produce goods and/or services that are offered on the market in order to obtain benefits, profits that are associated to the financial need of enterprises to survive. When enterprises decide to expand their business, to look for new markets their target is to increase their turnover, their profits, the shareholder value, their position on the stock exchange and therefore reduce the costs as much as possible.

On the one hand, the innovations and developments in the field of communication and transportation reduced the transactional and transportation costs. On the other hand, the rising globalization of capital made the greater mobility of capital possible. That means that companies can quickly move from high-wage to low-wage countries thus forcing down real wages in the former countries while exploiting “cheap labor”. Thirdly, multinational companies use in a higher degree the supply strategy of “outsourcing” and “global sourcing”. “Outsourcing” means that enterprises buy their stocks of raw materials, components or products from different internal and/or external independent purveyors. The strategy of “global sourcing” means that the enterprises has a provisioning politic orientated towards international supply markets, supposed to assure the profitability on the long term and increase the competitiveness of the enterprise.

The two possible strategies could be sketched as follows:

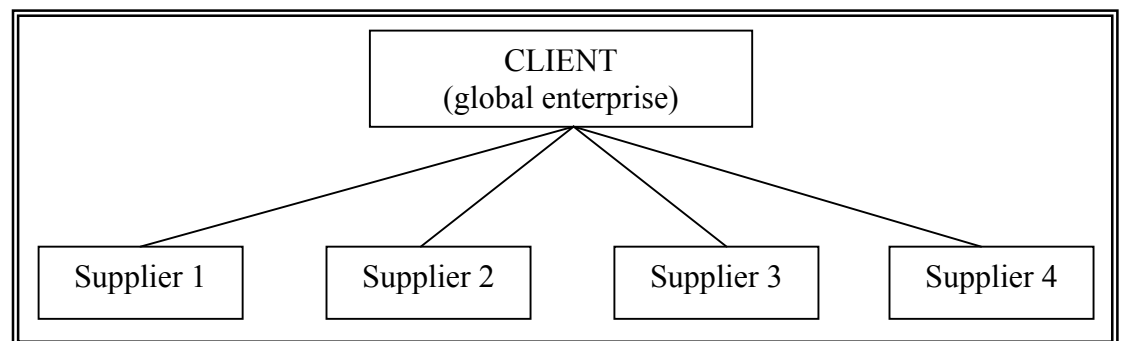


Figure 1: Outsourcing: delivery in accordance to a direct relationship client-supplier

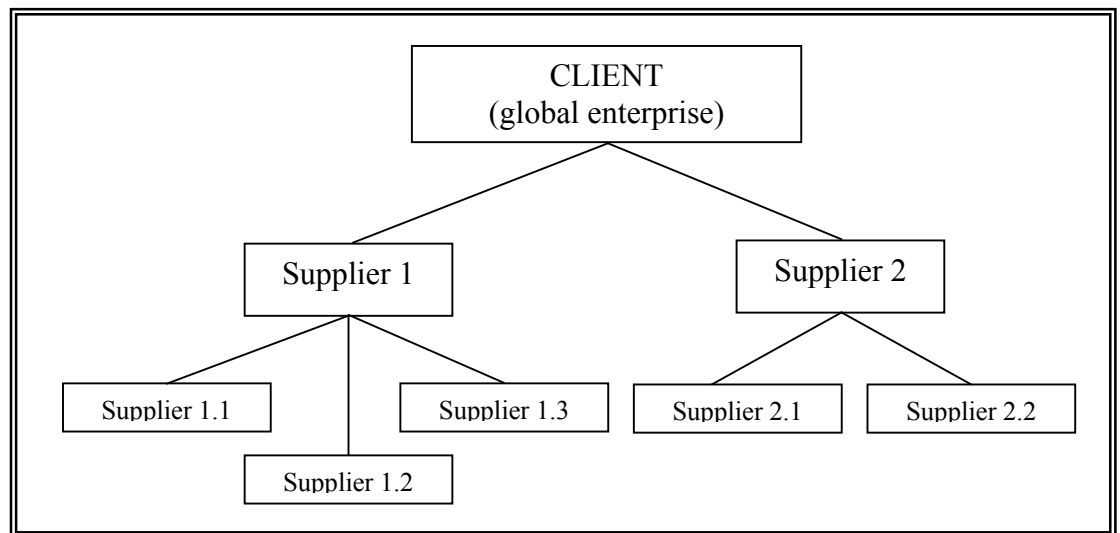


Figure 2: Global sourcing: delivery in accordance to the relationship client - supplier - under-supplier

Which type of internationalization should a company opt for, if it looks for increasing its turnover and profitability? Which are the criteria when choosing a location for its affiliates? What factors should the management of the company take into consideration?

I will answer this questions further on.

I will begin by mentioning which were the results of the A.T. Kearney/Foreign Policy Magazine Globalization Index and explain them. This index revealed, for instance, that Singapore was the "most global" nation in 1999. Topping the list for 2000 it was Ireland, a country whose levels of economic integration have boomed especially in the last decade.

Ireland's strong pro-business policies and English-speaking population have long drawn interest from overseas business, helping to transform the island into a highly attractive location for foreign investors ("the Celtic Tiger has really begun to roar"⁵⁸). In a bid to attract more international capital and technology investments, the country has cut corporate tax rates (already among Europe's lowest) and adopted a

⁵⁸ "Globalization's Last Hurrah?", Foreign Policy Magazine, January / February 2002, www.atkearney.com

National Development Plan designed to improve infrastructure and government efficiency. Privatization of state assets in telecommunications and banking have created positive signals for investment, while Ireland's decision to join the euro currency zone has dramatically reduced barriers against financial flows to and from other euro zone countries.

Ireland was also among the world's largest beneficiaries of the global boom in high tech and information technologies. It succeeded in attracting investments already in earlier years. This gave it a "first mover" advantage when these industries began to experience truly global growth. By 2000, technology giants such as Microsoft, Intel, Gateway, and Global Crossing invested huge amounts of capital in the "Silicon Isle", their European home as they use to call it. These high-tech investments explain Ireland's steadily growing FDI inflows (nearly \$5,500 per resident)⁵⁹.

Why did I want to give this example? Because I wanted to show how important national characteristics, and above all differences in the political, economic and legal systems and its functioning are, as they have an impact on the attractiveness of doing business in foreign countries.

Before deciding to extend its businesses abroad a company has to evaluate a series of factors that could have an influence on its economic activities. Thus it is important to hold out a prospect of the economic forecasts of a country and the transition to development. In this context, the extent of well-functioning market economy and property right protection appear as key factors.

Managers of the company, that intends to enter the global economy, have to find answers to the three fundament economic questions: What to produce?, How to produce?, For whom should be produced? in order to develop the best tactic for increasing their turnover, their financial revenues, income and wealth. Accordingly

⁵⁹ "Globalization's Last Hurrah?", Foreign Policy Magazine, January / February 2002, www.atkearney.com

to the long-term view of the company, this could mean internationalization (export, licensing, franchising, agreements in the sense of cooperation, establishment of an affiliate abroad, joint venture, transfer of own production and distribution abroad) or to keep, strengthen, increase its position on the internal market (i.e. by product diversification or differentiation).

Not at least, there must be made a comparison costs and risks versus the benefits of doing business in a country. Very often the entering on new markets is linked to high costs and risks in the first stages but there have to be taken into consideration the long-run benefits as these represent the real attractiveness of a country. Especially in developing countries, in transitional economies the costs of starting and doing business are considerably high, as there are increases because of political costs (corruption and bribes) and the quality of infrastructure (road, power, etc.). Risks can be of political (e.g. political instability), economic (e.g. indicator of inflation, debt level and growth; i.e. Asian Financial Crisis of 1997-1998) and/or legal nature (e.g. property rights)⁶⁰.

Therefore, the benefits in terms of revenues and profits must be really substantial in order to make it worth doing business in a foreign country (as costs and risks can be substantial too).

Risks are lower in economically advanced, politically stable democracies, where there is a high economic growth rate and good macro management. Yet it still appears that FDI is high in some undemocratic nations like China and Saudi Arabia. This fact can be explained by the political stability in the two countries. Both President Bush and Clinton argued that economic development will lead to political reform and more freedom. Using this logic, American companies do business for

⁶⁰ “Issues in Global Trade and Finance: Notes, Summaries and Questions”,
<http://www.biz.aum.edu/economics/GlobalG/GlobalTradeNotes.htm>

instance with China, for fear that otherwise firms from other countries will and get advantage.

One instrument MNEs use in order to expand is the Foreign Direct Investment (FDI).

1.1. Foreign Direct Investment

In order to quantify the trends in the process of the world economy globalization, there are calculated a series of index like for example: export and import shares, foreign capital investments, benefits abroad related to the net profit of the company, employees abroad as share of the entire personnel, share of a product or service on the world market etc.

In the period 1980 – 1995 there was registered a major growth in exports and the gross domestic product (GDP) on global level, as consequence of the increasing facilities of free trade, especially by the removal of non-tariffs barriers (NTB). Spurred by robust economic growth, global integration deepened substantially in 2000, a year that saw record gains in most indicators of international exchange⁶¹.

It was also the period when big companies started adopting more and more the strategy of investing abroad (i.e. in Germany every fourth company with a turnover of more than 100 millions DM used to expand its activity abroad). Thus the index pertaining to the foreign direct investments increased for five times within these fifteen years; especially in Northern Europe, South-Eastern Asia and North America. Similarly, foreign direct investment marked a spectacular increase in 2000, growing from \$1.08 trillion in 1999 to \$1.27 trillion in 2000, compared with only \$203 billion in 1990. Much of this investment was driven by corporations buying or merging with companies in other countries, contributing to increasingly global multinational

⁶¹ “Globalization's Last Hurrah?”, Foreign Policy Magazine, January / February 2002, www.atkearney.com

firms⁶². Just in order to show the effect of FDI for the results of a company, I have to mention that top French firms, for example, earned more than two times more revenue from their foreign affiliates than from their domestic sales in 2000, double the level early in the 1990s. And leading firms in the United Kingdom, Germany, and Italy had nearly as much foreign sales as domestic ones⁶³.

Which are the causes of investing abroad for enterprises? Why do firms invest globally? Worldwide there are over 45.000 companies and 280.000 foreign affiliates with \$7 trillion in estimated global sales. All businesses estimate their results by means of financial measures and index. The more profitable they are the lower their costs should be. By investing in order to extend their activities, companies have in view to lower production costs. They want to get around, to circumvent current or future possible trade barriers due to changes in world's developing economy. They pursue to position themselves strategically in those national markets, where they invested in. Finally but not least foreign direct investments are meant to hedge against currency risks⁶⁴.

FDI occurs when a firm invests directly in foreign facilities to produce or market a product: 10% interest or more in a foreign enterprise qualifies a company already as a multinational enterprise.

We have seen which were the driving factors for investigating abroad. The next step to do is to find out where MNEs will invest.

Historically, firms in developed economies invested in other advanced market economies. In 1970s US enterprises had a share of 47% of total FDI and the UK 18%. That period was clearly dominated by US multinationals. Recently, there was

⁶² "Globalization's Last Hurrah?", Foreign Policy Magazine, January / February 2002, www.atkearney.com

⁶³ Id.

⁶⁴ "Issues in Global Trade and Finance: Notes, Summaries and Questions", <http://www.biz.aum.edu/economics/GlobalG/GlobalTradeNotes.htm>

noticed a change, as there is a surge of FDI to newly developing economies: favorite areas are South-Eastern Asia, China, Latin America (Mexico and Brazil) and Africa.

FDI represents an alternative to exporting or licensing. FDI is expensive and risky due to the multitude of problems associated with doing business in different culture where the "rules of the game" can be very different. Therefore management has to be very cautious with the adopted strategy in different markets, as the marketing mix used for the domestic market could not fit in at all with the cultural understanding of the host market. Mistakes can be very costly.

➤ **Horizontal FDI**

A company is investing abroad in the same industry as it operates in at home. Reasons for adopting this strategy are advantageous transportation costs, market imperfections, they might be following competitors, the product life cycle might approaching the ending phase in the home market⁶⁵, or due to location advantages (John Dunning's OLI-Paradigm).

Licensing might not be viable because it may create a potential competitor, it might not give the company sufficient control to effectively exploit its competitive advantage, or its know-how is not amendable to licensing.

➤ **Vertical FDI**

The vertical strategy of FDI can be carried out into two directions: backward into industry supplying inputs like in extractive industries or forward into industries selling output of firm.

The reason for choosing this type of FDI is the strategic behavior to raise entry barriers to competitors or to prevent them from blocking you. It also offers market imperfection view of impediments to sale of know-how or some other factor.

⁶⁵ Product Life Cycle Theory: when cost pressures matter enterprises select the low cost alternative

Let's try to understand why is FDI the strategy selected in foreign entry and preferred to other forms of entry into new markets? Why FDI and not export, licensing or franchising, or joint ventures?

Best explanation for FDI is the *market imperfection theory*: obvious imperfections deal with substantial transportation costs and protectionism or the threat of future protectionism⁶⁶. Indeed, FDI is the most costly and risky of all market-entry strategies, but it is in the same time the best option for an enterprise if the company:

- wants to protect its valuable know-how or technology;
- needs to have very tight control over foreign operations;
- its competitive advantage and know-how is simply not amendable to licensing.

Thus, generally we observe FDI with:

- high tech firms to closely control knowledge and technology;
- large global oligopolistic enterprises due to their need for strategic control;
- firms under intense cost pressures to maintain cost controls.

For low tech, fragmented industries licensing and franchising is the most viable choice. Thus McDonalds' franchising system is an excellent way to share costs and still maintain control and quality. On the contrary, Wal-Mart (retailing industry) decided for tight control. Therefore they did the first FDI in 1992 and they expanded globally through wholly owned subsidiaries, as they believed that their know how, their "culture" and control systems could not be franchised.

In general corporations that want both to expand on international markets and protect their know-how at the same time, will invest abroad in order either to merge with foreign firms or to purchase them.

⁶⁶ "Locational determinants of FDI",
http://www.comu.edu.tr/silesian_university/Canakkale2000/pdf/erdal.pdf

1.2. Mergers and Acquisitions

Acquisitions are an important tool as far as the company growth is concerned. Several studies emphasize the increase of the number and of the value of mergers and acquisitions (M&As) during last decade, notwithstanding the absence of official data and the difficulties to collect them⁶⁷

In order to show which is the relationship between the industrial structure and the M&A process, several studies focused on the European countries, mainly because of changes induced by completion of Internal Market Program and expectations on European Monetary Union⁶⁸.

Further on I will try to explain which are the determinants of M&As at firm, industry and country level and within that determinants, which are the main differences between cross-border M&As and domestic M&As.

1.2.1. Theoretical Background

Mergers and acquisitions are a type of strategic alliances meant to increase the size, the market share, the position on the market, the shareholder value, the profitability of an enterprise, being a driving factor of globalization. The question to be answered by the management is whether they should take over a national competitor / supplier / client rather than an international one. They should always take into consideration the variables that influence the pattern of external growth of their company.

Some answers are related to the theoretical references dealing with the role of M&As within the firm growth process, both at an international and a national level.

⁶⁷ BLEEKE J., ISONO J., ERNST D., WEINBERG D.: "The shape of cross-border M&A", The McKinsey Quarterly, Winter 1990

⁶⁸ JACQUEMIN A., BUIGUES P., ILZKOVITZ F.: "Horizontal mergers and competition policy in the European Community", European Economy, No.40, May 1989
Also VITALI G.: "Acquisition Strategy of the top EU leader companies: a descriptive analysis", Ceris-Cnr, Copenhagen 1998, www.ceris.to.cnr.it/homedipendenti/vitali/vitaliresearch/Vitali_Coripe.htm

According to different theories there are different choices among external growth opportunities.

The first group of theories is concerned with the company's choice among hierarchical growth (including external growth by acquisitions or internal growth by investments), market transactions and partnerships (including non-equity agreements, and equity agreements such as joint ventures). In this sense, the main references are the transaction cost theory by Coase (1937) and Williamson (1991), and the complementary asset theory by Teece (1986).

According to *Coase's transaction cost theory*, the firm takes the place of the market only when the internal costs of coordination are lower than the costs of the market itself. In the original framework there are known only two possible organizational solutions: accumulation of internal resources or acquisition of an existing firm on the one hand (the hierarchical form), and on the other, the market. Agreements and joint ventures are defined as an intermediate form between market and hierarchy, and are not optimal with respect to hierarchy (considered to be the first best solution).

Within the *transaction cost economics by Williamson* firms choose the best way of growth according to three attributes of transactions: the frequency, the degree of uncertainty that they experience and the degree of idiosyncrasy of the investments necessary for the implementation of the transaction⁶⁹. Within the Williamson approach, agreements can also be a first best solution, as hierarchical growth or market transactions.

According to *Teece's complementary asset theory*, within the global competition the firms need a lot of financial, managerial, technological, manufacturing and commercial resources in order to manufacture a wide range of products, to commerce them on a wide range of countries, to develop many innovations. As it is impossible

⁶⁹ WILLIAMSON O.E.: "Comparative Economic Organization: the Analysis of Discrete Structural Alternatives", *Administrative Science Quarterly*, vol.36, 1991

for firms to have the direct control of such a huge amount of resources, they try to have indirect control of them through agreements and joint ventures, especially at an international level. Teece emphasizes that very often the organization introducing innovation doesn't take advantage of it, with reference to its competitors. Thus it is rather the firm which owns all the resources required to exploit the innovation the one to take advantage of it⁷⁰. Furthermore, the hierarchical organization can be quickly improved by M&As, which means that the missing assets can be directly acquired instead of pursuing the slow internal development.

The three above-mentioned theories suggest that M&As have a specific role: M&As' aim is either to avoid transaction costs (within the Coase approach) either to gain complementary assets (Teece' theory).

1.2.2. Determinants of International Mergers & Acquisitions

Theories dealing with foreign direct investments can be useful to focus on the determinants of international M&As, as the M&As are the main FDI component⁷¹.

The main reference is the eclectic approach by Dunning, well-known as the OLI-Paradigm⁷². He argues that FDI and M&As are strongly linked with:

- *ownership advantages*, related to full control of specific resources - such as technology, economies of scale, labor skills, brand name - ensuring the firm a competitive advantage at an international level
- *internalization advantages*, related to uncertainty and negative externality of market transactions⁷³

⁷⁰ TEECE D.J.: "Profiting from Technological Innovation: Implication for Integration, Collaboration, Licencing and Public Policy", Research Policy, Vol.15, 1986, p.285-305

⁷¹ VITALI G.: "Acquisition Strategy of the top EU leader companies: a descriptive analysis", Ceris-Cnr, Copenhagen 1998, www.ceris.to.cnr.it/homedipendenti/vitali/vitaliresearch/Vitali_Coripe.htm

⁷² DUNNING J.H.: "Multinational Enterprises and the Global Economy", Addison Wesley Publishing Company, Wokingham (England), 1993

⁷³ Buckley P.J. and Casson M.C.: "Economic theory of the multinational enterprise: selected papers", Macmillan, London, 1985

- *locational advantages*, related to some characteristics of the destination country, such as cost of production factors, trade barriers, innovation systems, market size, and so on.

These advantages could affect the choice between international M&As and domestic M&As. Within Dunning's theory, cross-border M&As depend on the comparison between internal and ownership advantages on the one hand, and localization advantages on the other hand. We could conclude that M&As take place in order to exploit international opportunities.

There could be noticed that there is a relationship between the M&A process and the so called global economy. The main advantages of global economy come from the demand standardization and the supply delocalization. These advantages can be quickly exploited by means of M&As, by acquiring production capacity and distribution capacity all around the world.

In this context the main determinants of M&As are economies of scale at a firm level, especially those related to product differentiation investments in R&D and advertisement⁷⁴ and those related to distribution chains.

In the context of European Union, for instance, the M&A process can be explained as a phenomenon due to the effects of oligopolistic competition within the European Internal Common Market. Thus, as a consequence of the removal of NTB, European companies can operate in the EU market as on the domestic one. At the same time, due to the removal of trade barriers the competition on the market is getting tougher. This higher competition is increasing the restructuring process at a firm and at an industry level, so that international M&As allow EU companies to restructure their organization quickly. The effects of such a restructuring is the higher degree of

⁷⁴ Sutton J.: "Sunk Costs and Market Structure: Price, Competition, Advertising and the Evolution of Concentration", Mit Press, 1991

geographical concentration concerning the sector characterized by high economies of scale and low transport costs⁷⁵.

Traditional models, related to the goal of M&As, can be grouped in⁷⁶::

- *resource-seeking M&As*, which are determined by exploitation of low production costs, and by other country specific factors;
- *market-oriented M&As*, determined by barriers affecting international trade.

According to new models which refer to oligopolistic competition M&As are divided in:

- M&As focused on the increase of market power;
- M&As focused on the pre-emptive moves against competitors;
- "absorb-the-rival" M&As, aimed to reduce competition.

In general, oligopolistic competition models are determined by specific factors at a company level, and not at a country or industry level, which are affecting the amount of M&A operations performed by companies, in general.

➤ **Firm-specific variables**

- *Size of the leading company expressed by its turnover*: there is supposed to be a direct relationship between the size of the company and the number of operations it performs. The more financial, organizational and technological resources are available to the company, the greater the opportunity of getting the control of other companies;
- *Diversification degree*: a diversified company is more likely to exploit growth potentialities, even by means of M&As, due to the information obtained from the several markets where it is operating;

⁷⁵ VITALI G.: "Acquisition Strategy of the top EU leader companies: a descriptive analysis", Ceris-Cnr, Copenhagen 1998, www.ceris.to.cnr.it/homedipendenti/vitali/vitaliresearch/Vitali_Coripe.htm

⁷⁶ DUTZ M.A.: "Purposive Diversification as a Motive for Merger", International Journal of Industrial Organization, vol.7, No. 1, March 1989

- *Internationalization degree*: it is assumed that a widely internationalized company, due to the information it can get from the countries where it is operating, can exploit external growth potentialities not available to the companies operating only within their local market;
- *Minimum Efficiency Scale*: the company exploiting technical scale economies has a tendency to increase its production capacity within its own plants, rather than getting control of other companies;
- *Economy of scale at a company level*: the firm adopting product differentiation by means of intangible assets is able to exploit high economies of scale at a company level for the R&D and advertising investments. It is assumed that these companies will pursue external growth, even by M&As.

➤ **Industry-specific variables**

- *level of the non-tariff barriers*: On the one hand, companies operating in low-NTB industries are more likely to undergo reorganization both at a company and at an industry level, even through M&As. These M&As are of the “strategical type” (that means their aim is to reduce competition or to prevent competitors’ moves). On the other hand, companies operating in low-NTB industries are more likely to bypass barriers at country level using M&As of local firms;
- *international opening of the industry*: the more exposed to the international competition the more likely will an enterprise perform more M&As, as its companies undergo deep reorganization processes.

➤ **Country-specific variables**

- usually these are variables indicating the *nationality* of the firms. (i.e. FRA, GER, ITA, JAP, NL, UK, US etc.)⁷⁷. Such variables reflect some institutional features of the country the company belongs to, which might affect their tendency to perform M&As, as for instance the efficiency of the financial market, the “type” of capitalist system, the reorganization process in progress, the macroeconomic policy implemented by the government, etc.

As a conclusion of the issue of which and how variables affect the number of acquisitions performed by an enterprise there is to be reminded that first of all, the dimension of the company shows a relationship between the available resources and the use of the M&A tool. In addition, company diversification seems to foster external growth too. Companies belonging to sectors with high international exposure do not exhibit any specific tendency to perform M&A whereas in industries with low NTB enterprises show a high interest for M&As. Concerning the country-specific variables, the dummy variable for Germany has for instance a negative sign. This is significant because it reflects a low interest of German companies in M&A operations. Companies that performed a high number of M&As, especially at an international level were above all US and Swedish companies⁷⁸.

We have seen which were the determinants of M&As, which were their goals. All the corporations acting nowadays on the global market endeavor to strengthen their position on the market, to increase their market share, to increase turnover and their profits. Why? They want to survive and have the idea that the means for their

⁷⁷ For the transnational companies the following principle was adopted: ABB (Sw), Royal Dutch/Shell (NL), Gec-Alsthom (F), SGS/Thomson (F)

⁷⁸ VITALI G.: “Acquisition Strategy of the top EU leader companies: a descriptive analysis”, Ceris-Cnr, Copenhagen 1998, www.ceris.to.cnr.it/homedipendenti/vitali/vitaliresearch/Vitali_Coripe.htm

survival are the short-term profit they achieve. Everything sounds very good, yet it seems something is missing. Do not corporations neglect the capital? I am not referring to the financial capital of an organization but to the 'intelligent' capital, namely the workforce, the people that may be are its most important endowment. Therefore I will continue by analyzing the issue of the human resource within global economic entities

2. *Human Resources - Key Factor of Success for Global Enterprises*

“The real wealth of a nation is its people. And the purpose of development is to create an enabling environment for people to enjoy long, healthy and creative lives. This simple but powerful truth is too often forgotten in the pursuit of material and financial wealth.”⁷⁹

2.1. *Sources of Sustained Success*

If someone would ask you to determine the companies that would provide the greatest return to stockholders over a period of a certain time, how would you approach your assignment?

First of all one would think about how the company could earn high economic returns. For this, a company should have some sustainable competitive advantage, that means something that:

- distinguishes it from its competitors
- provides positive economic benefits and
- is not readily duplicated.

In this respect, one would have very probably begun by selecting the right industries, as *“not all industries offer equal opportunity for sustained profitability, and the*

⁷⁹ These were the opening lines of the first Human Development Report, published in 1990

*inherent profitability of its industry is one essential ingredient in determining the profitability of a firm.*⁸⁰ According to Michael Porter's framework, the five fundamental competitive forces that determine the ability in an industry to earn above-normal returns are "*the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among existing competitors.*"⁸¹ In other words, you should find industries with barriers to entry, low supplier and buyer bargaining power, few ready substitutes and a limited threat of new entrants to compete away economic returns.

In the period from 1972 to 1992 the top three stocks in the USA were: Southwest Airlines (return of 21,775%), the discount chain Wal-Mart (19,807%) and a poultry producer, Tyson Foods (18,118%).⁸² Yet during the mentioned period, these industries (airlines, retailing and food processing) were characterized by massive competition and huge losses, widespread bankruptcy, virtually no barriers to entry (for airlines after 1978), little unique technology and many substitute products and services. And above all, none of the three firms was market-share leader, enjoying economies of scale from moving down the learning curve.

All this "theory" was meant in order to understand that the source of competitive advantage has always shifted over time.

But there is still one question unanswered: Do the three businesses have something in common? Indeed, it seems that these three successful companies have in common the fact, that for their sustained advantage they do not rely on technology, patents or strategic position, but on how they manage their work force.

'People and how to manage them' is a issue that nowadays is becoming more importance because many other sources of competitive success are losing from their initial power. The traditional sources of success (economies of scale, protected or

⁸⁰ PORTER M.E.: "Competitive Advantage", Free Press, New York, 1985

⁸¹ Id.

⁸² "Investment Winners and Losers", Money, October 1992, p. 133

regulated market, access to financial resources, product and process technology) can still provide competitive leverage but to a lesser degree than in the past. Organizational culture and capabilities, derived from how people are managed, are getting more important.

2.1.1. Traditional Sources of Success

➤ Product and Process Technology

Product technology, protected by patents or other proprietary know-how was one important source of competitive advantage.

In 1959, Xerox developed and introduced its first paper copier. In 1972 it had a market share of more than 90 % with improved machines that still relied on the same technological foundation. However, nowadays it is increasingly problematic to have success relying on a static product technology, especially since product life cycles are shortening and new-product introduction happen more quickly.

The rapid development of computer-aided design (CAD), computer-aided manufacture (CAM), the linking of the two, as well as other innovations that facilitate product design shorten the period one can achieve competitive success only through proprietary product or service technology. Competitors are more able to imitate product innovations and therefore the length of product life cycle is diminishing. Patents provide some protection, but it is less than one might think.

“Contrary to popular opinion, patent protection does not make entry impossible, or even unlikely. Within 4 years of their introduction, 60 % of the patented successful innovations ... were imitated.”⁸³

Firms sought competitive advantage not only in the product technology but also in the process technology used to produce their products or services. General Motors

⁸³ MANSFIELD E., SCHWARTZ M., WAGNER S.: „Imitation Costs and Patents: An Empirical Study”, *The Economic Journal* 91, p. 907-918

was considered the archetype of this approach, as it was investing a lot in technology in order to automate its factories in the 1980s. The company spent about USD 40 billion for modernization and new facilities, in the process substituting fixed for variable costs.⁸⁴ Actually, GM invested so much on money on capital equipment that it could have purchased both Nissan and Honda⁸⁵ and unfortunately it did not get much for all its efforts.

In fact, investments in process technology provide only limited competitive advantage, because “*Machines don’t make things, people do.*”⁸⁶

In the same context, commenting on the enormous investment in advanced computer technology to automate factory processes, one author noted:

*“It is rather ironic that the application of artificial intelligence to manufacturing is becoming a popular topic. If intelligence is so helpful to manufacturing in its artificial form, then why have the benefits of the real intelligence been overlooked so far?”*⁸⁷

➤ **Protected and Regulated Markets**

Another way how enterprises achieved competitive success was by avoiding competition through protected or regulated domestic markets. Thus, for instance imports of certain foreign goods were limited (e.g. French automobile market is protected from Japanese cars).

With the growing importance of free trade areas (see chapter 2.1.) and with the increasing investment in manufacturing facilities all over the world (see chapter FDI / M&As) the ability to sustain competitive success foreclosing markets is disappearing. The changing role of foreign trade in the world economies over the

⁸⁴ KELLER M.: “Rude Awakening: The Rise, Fall and Struggle for Recovery of General Motors”, Williams Morrow, New York, 1989, p. 213

⁸⁵ PASCALE R.: “Managing on the Edge”, Simon & Schuster, New York, 1990, p. 73

⁸⁶ Quotation of the senior manufacturing executive in the paper-making division of a large forest product company

⁸⁷ SAFIZAHED, H. M.: “The Case of Workgroups in Manufacturing Operations”, California Management Review 33, 1991

past few decades has been remarkable. The growth of both exports and imports reveal the fact that corporations are not competing just domestically but globally. Because that is the meaning of globalization.

➤ **Access to Financial Resources**

The access to financial resources was another traditional source of competitive success for an enterprise. In the past there were less efficient financial markets, so that one company's ability to finance itself through substantial financial resources afforded protection from competitors less able to acquire the resources necessary to represent a serious challenge. Yet this source of competitive advantage has lost its importance in the face of increasingly efficient financial markets in which capital moves worldwide on an unprecedented scale, due to the financial globalization process.

One American writer noted:

“The growth of international direct investment by multinational corporations has outpaced the growth of the world economy and world trade in the 1980s... Not only do United States multinational corporations face stronger competition from foreign multinationals in international markets, but affiliates of foreign firms – often with new production technologies and different management techniques – have become more active in the United States.”⁸⁸

Nowadays, capital is less significant as a source of competitive success because the money to finance a good idea or strong management is increasingly available to all attractive projects.

➤ **Economies of Scale**

Yet another source of competitive advantage that is less important than it used to be is the economies of scale. The famous Boston Consulting Group experience curve postulated that a company entering a market early and achieving large production

⁸⁸ RUTTER J. W.: “Recent Trends in International Direct Investment and the implications for U.S. Business”, U.S. Industrial Outlook 1990

volumes would face lower costs because it achieved benefits of learning as well as more traditional scale economies. Although there is some evidence of the economic benefits of large market share⁸⁹, there is also evidence that the importance of economies of scales as source of competitive advantage is diminishing. A possible explanation is the fact that in the era of globalization there is a growing trend towards more fragmented markets, that imply the need to cater to the specialized tastes of subsegments of the population.

2.1.2. The Changing Basis of Competitive Success

As the traditional sources of competitive advantage are becoming less important, the differentiating factor is the organization, its employees and how they work.

The success that comes from managing people effectively is often not as visible or transparent as to its source. Culture, how people are managed and the effects of this on their behavior and skills are sometimes seen as the ‘soft’ side of business.

Achieving competitive success through people requires a fundamental shift of the way of thinking about the workforce and the employment relations. It also means achieving success by working with people and not by replacing them or limiting their responsibility and the scope of their activities. Therefore, corporations should see their employees as source of strategic advantage and not just as a cost that should be minimized or avoided.⁹⁰

⁸⁹ BUZZELL R., GALE B.T.: “The PIMS principles: Linking Strategy to Performance”, Free Press, New York, 1987

⁹⁰ PFEFFER J.: “Competitive Advantage Through People: Unleashing the Power of the Work Force”, Harvard Business School Press, Boston, 1994, p. 14ff

2.2. Human Resource Managers: Their Role in a Changing Environment

Issues facing human resources are expected to change dramatically in the next decades. Thus, human resource professionals must play special roles in dealing with these changes and must develop specific competencies to support these roles.⁹¹

Workplace flexibility is expected to be on the rise as the future workplace, the "virtual office", is characterized by creative and flexible work arrangements. As more employees work off-site – up to two thirds of an organization in the 21st century - there will be an increase in emphasis on performance and results as opposed to the number of hours worked. In addition, off-site employees can expect to attend fewer meetings. Specified work will become much more collaborative and management will spend nearly all its time managing cross-functional work teams who enjoy a lot of autonomy. In essence, there will be a movement, a trend towards a decentralized model of Human Resources.

Human resource managers will have to accommodate employees in their virtual work locations and find ways to manage corporate culture, socialization and employee orientation. In order to obtain and maintain a competent workforce, they must act as organizational performance experts and shape employee behavior without face-to-face meetings.⁹²

Another expected change in Human Resources is the 'Global business' concept. World trade knew a major growth during the last years and there is forecasted as well the growth of international businesses, especially among small firms. Organizations rely more and more on human resource specialists as the facilitators of work across borders and among different cultures. Therefore, they must be knowledgeable of

⁹¹ Groupe Téreence: "Encyclopédie des ressources humaines: Ressource Humaine et Stratégie d'Entreprise", Tome 3, Les Éditions d'Organisation, Paris, 1994

⁹² ULRICH, Dave. "A New Mandate for Human Resources." Harvard Business Review (January/February 1998),

other cultures, languages and business practices. They will be required to develop and manage an international workforce, maintain written and unwritten corporate policies for transportability to other cultures⁹³, keep top management informed of the costs of not paying attention to the transnational issues and provide their services to a variety of locations world wide.⁹⁴

Concerning the recruitment in the above mentioned “global business” it will be important which strategy will be adopted by the management.

If emphasis is laid on internal recruitment, the advantage is that candidates are already familiar with both the corporate system and culture. However, some senior managers may object to the constant drain of young talent from their units. There are three alternatives of sources of recruitment:

- local, that means citizens of the host country
- home-country nationals
- third-country nationals.

Most managers in subsidiaries are host-country nationals, as local managers are generally more familiar with environmental conditions and how they should be integrated. However, if they are not properly trained and indoctrinated, they may see things differently from the way they are viewed at headquarters, dichotomy that could create problems for the control and coordination of programs. On the positive side, however, home-country nationals are less expensive and are usually familiar

⁹³ Corporate policies must be written in such a way that minimize the impact of cultural barriers, allowing for transference in to other cultures which can be translated and communicated uniformly from one language to another. Furthermore, the corporate policies will also need to be flexible enough to reflect the reality of a different culture’s values, customs and laws. Dave Ulrich believes that "globalization requires that organization increase their ability to learn and collaborate and to manage diversity, complexity and ambiguity ("A New Mandate for Human Resources", Harvard Business Review January/February 1998)

⁹⁴ HALCROW A.: "Survey Shows HR in Transition Workforce", 1998

with the ins and outs of the local market. In plus, home-country nationals are increasingly receiving a Western-style business education.⁹⁵

Globalization will impact HR managers by requiring new skills such as language capabilities. For example, in order to recruit employees from other cultures, HR managers will either have to learn new languages or else "they will certainly have to have foreign language speakers on staff."⁹⁶ But in order to facilitate communication among people coming from a wide range of language backgrounds, in most multinationals, it is preferred to speak English. To develop language skills and promote international outlook in their management pools, multinationals are increasingly recruiting graduates from business schools in the USA, Western Europe and the Far East. Factors as the type of the industry, the life cycle stage of the product, the availability of managers from other sources and the functional areas determine the decision of the management whether to use home-country nationals or not. Thus, in the service sector there are normally more home-country managers than in industrial sectors. Some corporations have home-country nationals in some functional areas, as accounting or finance, for reasons of control and communication. This is the case of the majority of Japanese implants in the USA, that use Japanese Chief Functional Officers.

Third-country nationals are most often employed in large multinational enterprises that adopt a global philosophy. Thus, they may contribute to the firm's overall international exposure. Anyway, a multinational corporation should be cautious when proceeding some transfers and pay attention to the cultural and historical background.⁹⁷

⁹⁵ DEMAZET B., BUTLER D., CANONNE R.: "Business and Globalization", ellipses/edition marketing S.A., Paris 1999

⁹⁶ HALCROW A.: "Survey Shows HR in Transition Workforce", 1998

⁹⁷ DEMAZET B., BUTLER D., CANONNE R.: "Business and Globalization", ellipses/edition marketing S.A., Paris 1999

A similar recruitment pattern is used by all companies during the internationalization process. During the export stage, firms, at first, seek outside expertise. Then they begin to train their own personnel. This trend is reversed when the enterprise actually produces on the foreign market. Up from this point, enterprises rely less on home-country personnel and prepare the host-country nationals for management positions. They increasingly restrict the use of home-country and third-country nationals for special assignments (for example, a transfer of technology or expertise). They will go on using them as a matter of corporate policy to internationalize management and to foster the infusion of a particular corporate culture.⁹⁸

Similar was the situation pertaining to the entrance of Unilever on the Romanian market. After couple of years of exports meant to test the market and make it fit, Unilever acquired the majority shares from Dero Ploiești (detergent production), invested in technology and managed to get the leadership on the detergent market. At the beginning there were over 40 home-nationals, in the meantime there are may be 10 more left. Therefore, as the time passes, the number of home-nationals decreases. The idea behind is that these came with their know-how 'luggage' in order to transfer it to Romanians. And the best ones among them will substitute the home-nationals. The conclusion would be: the more Romanians in managing positions the more increases the decision independence on national level, the more develops the affiliate.⁹⁹

Globalization and culture... How does this relation influence businesses and HR professionals attitudes?

Companies must take into account cultural differences that shape managerial attitudes, when developing multinational management programs: for example,

⁹⁸ MOCKLER R.: "Multinational Strategic Management: An integrative Context Specific Process", Economica, București, 2001

⁹⁹ VOINEA L.: "Transnational Corporations and National Economies", I.R.L.I., București, 1999

British managers value individual achievement and autonomy, whereas French managers appreciate competent supervision, fringe benefits, security and comfortable conditions.¹⁰⁰

Human resources managers must therefore be familiar with and understand other cultural norms to promote organization diversity. An organization that recognizes and promotes cultural diversity will benefit because it will be employing the market that it serves. With increasing globalization and competition within the market, a diverse workforce is conducive to attracting and retaining a strong client base. While competing in an international market, employees from diverse national backgrounds provide language skills and understanding of other cultures. Human resource professionals will also be responsible for providing cultural sensitivity training for the organization's employees and for managers throughout the entire organization.¹⁰¹

International business practices will also be required to be understood by human resources managers. For example, different negotiating styles and techniques vary across cultures as well as business etiquette and communication styles. These differences must be understood and adapted to in order to be successful in generating and sustaining business in other countries and cultures. Furthermore, international labor laws must be adhered to and incorporated into employee policies. In this regards, Kemske states that if you "*manage your domestic diversity badly...you may get a morale problem or a lawsuit...manage your affairs in another country badly and you'll have a market disappear or employees taken hostage*" identifying a very serious consequence of not paying attention to transnational issues.¹⁰²

¹⁰⁰ DEMAZET B., BUTLER D., CANONNE R.: "Business and Globalization", ellipses/edition marketing S.A., Paris 1999

¹⁰¹ RIECKMANN H. J.: "20 Thesen zur zukünftigen Managemententwicklung in der Wirtschaft", Neue Trends im Personalwesen, Verlag Moderne Industrie, Landsberg am Lech, 1988

¹⁰² KEMSKE F.: "HR 2008: A Forecast Based on Our Exclusive Study", Workforce, January 1998, pp. 46-60

A further change will be in the relationship between work and society. Employees will be 'working to live' as opposed to 'living to work'. The values determined by society have changed: there is not quantity that counts most, but quality of life. Therefore, people will expect greater flexibility from their employers regarding personal issues, especially with regards to pursuing life interests and family obligations. This may affect the way human resource professionals do evaluations, performance appraisals and career planning. As self-employment and telecommuting rise, work will become less like a participation in a culture.

The percentage of working women will continue to increase as more families than ever are dependent upon women's incomes to survive. The number of single working mothers with small children will rise dramatically and human resource professionals will have to readjust policies, to better accommodate those individuals.

In the area of workplace development, there will be a shift toward constant learning in a just in time format using a variety of technologies. The skill level of the workforce will change as technology is using a variety of technologies, as technology de-skills 75% of the population. Varied skills and dept expertise may be valued equally and a new focus on performance measurement will shift emphasis away from skill building.

A change in the definition of jobs will take place as jobs get bigger and broader. This will decrease the importance of job descriptions and titles and increase the importance of competencies. As jobs become broader, generalized, challenging and independent, employees will be required to become more flexible and to product results, rather that just put in time. Human resource professionals will recruit less for particular skills and more for organizational fit. Therefore, there will be a growing importance for the strategic role of the human resources profession. A shift in focus to organizational performance is expected, and the profession will move into a

leadership position as organizations come to the understanding of how much they depend on it. Human resource professionals will have to play a consulting role and to constantly rethink their strategy and organization. Furthermore, they will be faced with the challenge of managing the availability of competent candidates.

In the managing change arena, restructuring will be a never-ending process. As technology and competition continue to change quickly, organizations have to continuously manage change. In other words, change will be the only constant. Reengineering will evolve from its current focus on processes only, to involving people's decisions and other organizational effectiveness.

Human resources will evolve from strategic business partnership to strategic business leadership. In other words, human resource professionals will be leading and driving change, not just monitoring it. They will be doing the analysis and strategy planning at the business table, alongside business leaders. In addition, they must look for ways, not only to manage change, but to influence it and control it, to create an organization which is change sensitive.

In this context, Arie de Gues, who worked for Royal Dutch / Shell noted that analysts tried to find out what companies like DuPont, Kodak, Mitsui, Sumitomo had in common. Four key factors are characteristic for all these "successful survivors of history":

- they all have shown a high degree of sensitivity to the environment, so they were very change sensitive
- they were cohesive and had a strong sense of identity (cohesion around the idea of "community")
- long-lived companies were tolerant respectively decentralized
- finally they were conservative in financing.

Analysts also found out that the ability to return investment to shareholders seemed to have nothing to do with longevity.¹⁰³

Another evolution will be the continued growth of health care costs, as the ‘baby boomers’ generation grows older. The active workforce has to bear the costs, and as its number stays the same level or even shrinks, and the number of retired persons increases, health taxes will increase. Human resource professionals will have to deal with the problem of the growing number of aging workers. It is estimated that by 2030, 20% of the workforce will be 65 years old or older. Therefore, policies and programs that had been built for the younger workforce will have to be changed to accommodate the older generation. In addition, human resource professionals will have to find ways to keep this generation productive and satisfied with fewer promotional opportunities. They will need to know how to recruit, manage and train an aging workforce.

2.2.1. The Role of Information Technology

Technology plays an tremendous role in all areas of today’s organization. This role will increase as more and more organizations become global competitors. The role of human resources professionals will also be adapted as a result of increased technology, allowing to enhance organizational efficiency. Information technology (IT) makes workplace flexibility possible, since it frees the employee from a specified work location. In organizations that have employees and divisions in other countries, HR professionals will be required to be committed to continuous learning in order to stay up to date with current technological capabilities that facilitate communication such as e-mail, Internet and videoconferencing, especially as the value of meetings decreases. These technological and communication capabilities

¹⁰³ GEUS A.: “The Living Company: Growth, Learning and Longevity in Business”, Nicholas Brealey Publishing, London 1997

such as the Intra- and Internet will allow for cross-cultural work teams to share information and generate ideas to collaborate on business projects efficiently (major tool for communication, training and benefits administration).

2.2.2. Competences for a HR Manager

In order to effectively deal with all the changes, human resource professionals must develop competencies that will allow them to carry out their roles. Competences like flexibility, decisiveness, leadership, team work, communication, strategic planning, network building, client service orientation, organizational awareness, self confidence, sharing of expertise, global and cultural understanding as well as multiple language competencies.

In addition to increasing and sustaining technological skills relating to communication developments, human resources professionals will may also be required to increase their numerical and data compilation skills. As increasing demands emerge to provide specific measurable results that prove effectiveness in their area, human resources professionals will be required to produce quantifiable results that prove that their department is delivering specified outcomes based on the objectives and goals set forth by the organization. For example, human resources professionals may be required to show that training provided a 15% return on investment based on productivity measures, or that employee turnover has declined from 27% over the past three years.

In addition to delivering specific measurable developments, managers will also need to know what contributed to the results declared. This may mean that human resource professionals will be required to be familiar with and administer employee survey, and provide for accurate data compilation and regression analysis. It would be useful to know not just that employee satisfaction decreased by 15% from last

year, but to know that it was due to a recent organizational downsizing. Or, to find out that a top priority of 77% of the employees in an organization is benefits and programs that relate to and facilitate balancing their work and family. By acquiring such specific information, human resource professionals are able to make actionable and pertinent responses that will deliver measurable results which can ultimately increase employee morale and productivity..

As a result of the increase in technology, innovation and globalization over the last 20 years, human resource professionals around the world are forced to be more efficient, more effective and more competitive. They need to respond to the demands of global competitiveness by becoming more familiar with language skills, cultural awareness and diversity promotion. Additionally, HR professionals must be committed to continuous learning, being familiar with cutting-edge communication. If human resource managers won't pay enough attention to their changing role, serious consequences could result, including the deterioration or even perhaps the elimination of the Human Resources Department.

2.3. Managing People: Policies and Practices for Managing the Employees

The objective of human resources policy pertaining to labor personnel is to anticipate the demand for various skills and to have programs in place that will ensure the availability of employees when needed. Workers employed by a multinational enterprise are usually local. Their primary concerns in working for it are job security and benefits. In spite of the legislation and restrictions, most companies have, as regards the hiring of expatriates, offset labor shortages by hiring workers from third party countries. This great variety of nationalities in the work force makes human resources management even more difficult. Moreover, in the event in which the local

labor force is not sufficiently trained, the firm may fly local workers back to the home country for appropriate training programs. Compensation is usually the best means for the firm to attract the best local workers. Multinational companies often pay host-workers wages which are significantly higher than local average and provide better working conditions¹⁰⁴.

A survey achieved by Romanian researchers on a sample of 100 employees of state-owned enterprise reveal those perception regarding to foreign companies (Annex 3). Their opinion is that working environment is more stimulating (working conditions are better - 71,85%, wages higher - 65,45%) but also more demanding (as they should work harder – 81,27%, increasing uncertainty of working place – 43,78%) under the conditions of a more efficient management (64,61%). (see annex). A second survey achieved by KPMG Romania in 350 foreign companies (participation rate of 17%) stresses the results of the precedent study.¹⁰⁵

The superior level of wages in multinationals is due to:

- higher productivity level comparing to national enterprises
- the high-skilled, experienced and trained workforce
- trade unions' possibility to make some pressure on corporations.

Policies and Practices for Managing People

Both academics and practitioners have the belief that there are interrelated practices within the department of human resources that seem to characterize companies that are effective in achieving competitive success through how they manage people.

Is the use of these practices a premise for success?

Every organization decides which practice is most critical for achieving its goals, depending on its particular technology and market strategy. For an organization it is

¹⁰⁴ UNCTAD Outlook 1999

¹⁰⁵ VOINEA L.: "Transnational Corporations and National Economies", I.R.L.I., București, 1999

possible to do all of these practices and be unprofitable and unsuccessful, as well as to do few or none of them and still be successful, as the workforce is not the only basis of success, although it is increasing in importance.¹⁰⁶

Managing the workforce effectively is not always equally essential to competitive success. Whether one needs the performance of all employees or only the contribution of few talented individuals varies according to the nature of the technology involved. Thus, some industries and technologies require the effective performance of everyone in the organization in order to be successful, while others rely primarily on discontinuous breakthroughs in products or processes by one or more individuals. However, in both situations, it is important to recognize that the practices are interrelated, allowing a positive synergy effect. Further on I will mention briefly which are the policies and practices for managing people.

➤ **Employment Security**

Security of employment is the sign of a longstanding commitment by the company to its workforce. There are norms of reciprocity that means that this commitment is supposed to be repaid.

For instance, New United Motor Manufacturing (NUMMI), the Toyota-GM joint venture in California, guaranteed workers' jobs as part of the formal labor contract in return for an agreement not to strike over work standards.¹⁰⁷

“Employment security enhances employee involvement because employees are more willing to contribute to the work process when they need not fear losing their own or their coworkers' jobs. Employment security contributes to training as both employer and employee have greater incentives to invest in training”¹⁰⁸

¹⁰⁶ PFEFFER J.: “Competitive Advantage Through People: Unleashing the Power of the Work Force”, Harvard Business School Press, Boston, 1994

¹⁰⁷ PRESLEY NOBLE B.: “An Approach with Staying Power”, New York Times, 8th March 1992

¹⁰⁸ BROWN C., REICH M., STERN D.: „Becoming a High Performance Work Organization: The Role of Security, Employee Involvement and Training“, Working Paper 45, Institute of Industrial Relations, Berkeley University of California, 1992

because there is the assurance that the employment relationship will last that long, for the company to earn a return on the time and resources expected in skill development.

Sometimes managers express their concern that guaranteed employment could foster a 'civil service' mentality and thus lack of emphasis on performance. If employment security is coupled with financial incentives for good performance and with work organization practices that motivate employee (i.e. team-work) this concern of managers won't be a problem.

➤ **Selectivity in Recruiting**

Security in employment and reliance on the workforce for competitive success mean that the company (human resources department) must be careful to choose the right people and in the right way.

Recruiting has an important symbolic aspect: If someone goes through a rigorous selection process, this person feels that he or she is joining an elite organization. Thus there are already created high expectations for performance and the message sent is that people matter.

➤ **High Wages**

If a company wants to recruit outstanding people and keep them, paying more is helpful, although not absolutely necessary. High wages tend to attract more applicants permitting the organization to be more selective in its hiring. This selectivity is important in finding people who will be committed to the employer and are going to be trained.

Higher wages send a message that the enterprise values its people. Especially if the wages are higher than required by the market, employees tend to perceive it as a gift and work therefore more diligently.¹⁰⁹

Organizations often try to economize by paying lower wages, assuming that lower wages equal lower labor costs that are essential for competitive success. This is not always the case as labor costs depend also on the productivity of the workforce.

➤ **Incentive Pay**

In our society of these days where quality of life is more important, people are not motivated just by money. Recognition, security, fair treatment matter more and more. However, it is true that money are necessary in order to enjoy the quality of life. Therefore, if people are responsible for enhanced levels of profitability of an organization they will expect to receive a certain share of the benefits. There has been proved that

“profit sharing and productivity are positively related... Most case studies show improved performance when there is profit sharing or gain sharing. Sharing the gains of increased performance may motivate greater work effort, but at a minimum, it fulfills employees’ expectations for deriving some benefits from outstanding work.”¹¹⁰

Let’s assume that just the top management will receive the benefits, then employees that contributed to the achievement of benefits will feel treated unfair, become discouraged and abandon their efforts. Thus, many organizations try to reward performance with different forms of contingent compensation. Bonuses based on the company’s profitability can constitute up to 100% of a regular salary. They are meant for employees to identify with the firm. Another form of bonuses is based on the individual’s merit rating (based on different aspects of performance, such as quality, dependability, output, and ideas and cooperation).

¹⁰⁹ AKERLOF G.: “Gift Exchange and Efficiency Wage Theory”, American Economic Review 74, 1984, p. 79-83

¹¹⁰ PFEFFER J.: “Competitive Advantage Through People: Unleashing the Power of the Work Force”, Harvard Business School Press, Boston, 1994

➤ **Employee Ownership**

Employee ownership offers two advantages.

On the one hand, employee ownership can align the interest of employees with those of shareholders by making employees shareholders, too. As a consequence there will be less conflict between capital and labor for employees that have ownership interests in the company they are working for.

On the other hand, employees as shareholders of the company will have stocks. And employees are more inclined to take a long-term view of the organization, its strategy and its investment policies and are less likely to support takeovers or financial maneuvers.

Some studies concluded that employee share ownership have “favorable effects on employee incentives and enterprise productivity”, as the Japanese model proved it.¹¹¹

➤ **Information Sharing**

On the one hand, gain sharing requires information sharing, and secondly, if people are supposed to be a source of competitive advantage, they must be well informed about what the management expects them to do in order to be successful.

➤ **Participation and Empowerment**

Sharing information is an important prerequisite for encouraging the decentralization of decision making and for broader worker participation and empowerment in controlling their own work process.

Participation increases both satisfaction and employee productivity¹¹², as autonomy is one of the most important dimensions of jobs.

¹¹¹ Id.

¹¹² LEVINE D. I., D’ANDREA TYSON L.: “Participation, Productivity and the Firm’s Environment”, in *Paying for Productivity*, Blinder

➤ **Teams and Job Redesign**

The traditional hierarchical organization provides: monitoring and supervision to ensure that employees do their duties, and coordination across interdependent tasks. Even if employees are empowered, the need for coordination, and some monitoring remains, as organizations are interdependent systems. Autonomy can not mean that people do whatever and whenever they decide to do it.

As alternative for the traditional hierarchy is the use of teams. This system preserves much of the sense of autonomy even it provides some level of monitoring and coordination. Organizations that integrated in their working system team-work have often experienced excellent results.

Even critics of this concept often argue that the problem with teams as a substitute for the traditional hierarchical model is that this approach works too well.¹¹³ Thus a dissident union leader in a NUMMI plant noted:

“When the team’s under pressure, people try to meet the team’s expectations and under peer pressure, they end up pushing themselves too hard... The team concept is a nice idea, but when you put the teams under pressure, it becomes a damn effective way to divide workers.”¹¹⁴

➤ **Training and Skill Development**

For an organization it is not enough to have only people empowered to do changes and improvements in products and/or processes but they should also have the necessary skills to do it. If people are to be given more information about operations, they need skills in employing the received information to diagnose and analyze problems and suggest solutions and improvements. That is the reason for that training is such an important part of quality improvement programs.

¹¹³ PFEFFER J.: “Competitive Advantage Through People: Unleashing the Power of the Work Force”, Harvard Business School Press, Boston, 1994

¹¹⁴ ADLER P. S.: “The ‘Learning Bureaucracy’: New United Motor Manufacturing, Inc.”, in Barry M. Staw and Larry L. Cummings (eds.), *Research in Organizational Behavior*, JAI Press

As I mentioned it several times, nowadays it is more likely to achieve competitive success through people than through the traditional sources of competitive advantages. Consequently, the importance of having a workforce with adequate skills is increasing. In this sense, it is known, that “learning in schools and learning on the job are by far the most important factors behind American growth and productivity in this century”¹¹⁵.

Regarding the skill problem, an overview of training and preparation of work from the 1990s concluded:

*“As we approach the end of this century, it becomes ever more apparent that the demand for more skilled workers is on a collision course with the quantity and quality of the labor supply.”*¹¹⁶

In this respect, Jeffrey Pfeffer writes down some examples from the USA. Thus he notes for instance that a human resource planning document prepared at the Bank of America in 1990 reported that a bank from New York must interview about 40 applicants in order to find one who can be successfully trained as a teller; whereas at Motorola 80% of its applicants could not pass a 5th grade math test or a simple 7th grade English comprehension test.¹¹⁷

Therefore companies should put the accent on training in order to increase the skills of their employees and thus profitability. Are organizations aware of this links, of the fact that well trained people can be competitive advantage for them? If yes, then why do they not provide more training?

Actually there are some reasons for many companies providing less training than is optimal. On the one hand, there may be some countries that do not have a specific public policy to encourage training (for instance the United States). On the other

¹¹⁵ PFEFFER J.: “Competitive Advantage Through People: Unleashing the Power of the Work Force”, Harvard Business School Press, Boston, 1994

¹¹⁶ BLUESTONE B., BLUESTONE I.: “Negotiating the Future”, Basic Books, New York, 1992, p. 102

¹¹⁷ PFEFFER J.: “Competitive Advantage Through People: Unleashing the Power of the Work Force”, Harvard Business School Press, Boston, 1994

hand, costs of training are immediate, but the benefits are often long term and may, in fact, accrue to other organizations, as employees have the possibility to change their workplace easily. Therefore some economic theory suggests that general training should be funded by the trainee, whereas only firm-specific training for skills used in a particular organization should be financed by that enterprise. Third, under the pressure of short-term budget or profit pressure, training is often the first cost to be cut, as training's benefits are inherently long term.

➤ **Multiskilling: Cross-Training and Cross-Utilization**

There are several benefits of people doing several jobs.

Having the possibility of doing multiple jobs can make work more interesting and the work life more challenging. Besides motivational effects, multiskilling is increasing the perspective of employment security, as it is easier for a company to keep people at work if they have multiple skills and can do different tasks.

At NUMMI, workers were cross-trained on each others' tasks and rotated between tasks.

“Rotating jobs means that everyone in the team is contributing as much as everyone else. In the traditional plant, older workers with more seniority would get the easier jobs... Now we've eliminated those easy jobs by rotation, and if someone has a harder time on one job because they're older [...] the team helps out by rotating faster.”¹¹⁸

➤ **Symbolic Egalitarianism**

Symbols that separate people from each other are a barrier to decentralizing decision making, using self-managed teams and succeeding in gaining employee's commitment and cooperation. Therefore many companies, known for the fact they are achieving competitive advantage through people, have introduced different forms of symbolic egalitarianism. This concept is meant to signal to both outsiders and

¹¹⁸ PFEFFER J.: “Competitive Advantage Through People: Unleashing the Power of the Work Force”, Harvard Business School Press, Boston, 1994

insiders that within that organization there is comparative equality and there is not a strict division in two groups: some think and others do¹¹⁹. There should not be a ‘us’ and ‘they’-thinking any more but rather the ‘we’-feeling is developing.

However, symbolic egalitarianism is not very easy to implement as this would assume the elimination of status symbols that is often one of the most difficult things for an organization to do.

➤ **Wage Compression**

Wage compression is related to the fact that people working in teams follow a common path and therefore the reward received should also be comparably. Wage compression is distinct from incentive pay, that means that people are rewarded either individually or in group for their performance. The effect of pay compression are efficiency gains by reducing interpersonal competition and enhancing cooperation.

➤ **Promotion from Within the Organization**

This practice encourages training and skill development because the availability of promotion opportunities within the organization binds employees to employers and vice versa.

An advantage is that people who reach management positions began their carrier-path in the company in a low position and advanced step by step, so they know something about the business, the technology and the operations they are managing.

➤ **Long-Term Perspective**

Achieving competitive advantage through the workforce, it take time to accomplish. In general, companies are short-term, profit-oriented and seem to forget that time is

¹¹⁹ PFEFFER J.: “Competitive Advantage Through People: Unleashing the Power of the Work Force”, Harvard Business School Press, Boston, 1994

required in order to implement employment practices that will ensure them competitive success on the long run.

If a company is facing immediate short-term pressure, it is inconceivable, that it will do something in order to achieve competitive advantages through its employees. In the short term, laying off people seems to be more profitable compared to trying to maintain employment security, and cutting training is a quick way to maintain short-term profits. Similar, cross-training and cross-utilization may provide innovations and advantages in time, but the company is oriented only on immediate proficiency.

➤ **Measurement of the Practices**

Measurement is a critical component in any management process, and therefore valid also for the process of managing the workforce of an enterprise.

What is measurement good for?

First of all, it provides a feedback pertaining to how the organization is implementing various policies. Then, measurement ensures that what is measured will be noticed.

The author noted that “things that are measured get talked about, and things that are not, don’t.”¹²⁰

Trying to explain this he wrote about the time he was a consultant to the commander of the Army and Air Force Exchange Service:

“My focus, the organization’s human resource policy and practices, faced a severe problem – at each board meeting, detailed financial information was presented on sales and profits compared to last year as well as sales and profits by region, by category of merchandise, by line of business, and so forth. The only information regularly presented about people was their cost (where the assumption was that less was better) and their productivity, expressed as dollars of sales per employee.”¹²¹

This quotation points out the way workforce is often treated in enterprises: as a cost, that has to be reduced in order to increase profitability.

¹²⁰ PFEFFER J.: “Competitive Advantage Through People: Unleashing the Power of the Work Force”, Harvard Business School Press, Boston, 1994

¹²¹ Id.

In a world in which financial results are measured, a failure to measure human resource policy and practice implementation doom this to oversight, neglect and potential failure. In order to further develop implementation ideas as well as to learn how well practices are achieving their intended results, feedback from the measurements is vital.

➤ **Overarching Philosophy**

Having a view of management or an overarching philosophy provides the possibility of connecting the various individual practices into a coherent whole. It also enable people in the organization to persist and experiment when things do not work out immediately. Moreover, it helps explaining what the organization is doing and justify it.

Many companies that seek competitive success through their workforce and practice from the approaches mentioned before, began with some underlying principles and developed them early in the process. Levi Strauss' quality enhancement process began with the understanding that "*manufacturing for quality and speed meant breaking the old paradigms*", turning the culture upside down and reorienting the parameters of the business.¹²²

The challenge to implementing these policies and practices that successful companies employ in managing their workforce is the idea that how one manages the personnel is contingent on the enterprise's competitive strategy.

To illustrate this idea, let's make the following assumption. If a company achieves competitive advantage through its personnel, and another enterprise would want to compete with the first one, the latter would most probably do it, not by adopting the same tactic but by doing something completely different, using other competitive

¹²² THIGPEN P.: "New versus Old Paradigms at Levi Strauss", Presentation at the Standford School of Business, 26th February 1991

weapons such as product differentiation or information technology. We have to realize that competing on the basis of human resources is not the only source of success, but it is the possibility of achieving success on the long run.

2.4. *Work-Life Balancing*

Peoples' lives are getting busier all the time. Employees today are often juggling work and family responsibilities, demands on their time for education, sports, community service and/or leisure and may, at times, feel dissatisfied with the quality of both their work and personal lives. Faced with the constant struggle to balance work responsibilities with personal commitments, they are looking to their workplace to provide some relief, support and practical solutions to their busy and stressful lives. Organizations who work with their employees to find and implement solutions to this dilemma will find that providing a workplace that fosters work-life balance is not without clear business benefits¹²³.

In the 1990s companies started to consider work-life issues. It was like an intuition that this was an important thing for employers to do, although there was no strong data to back up this feeling. Claims of "reduced absenteeism", "improved productivity" and "greater potential for recruitment and retention" (at that time still unsupported with strong arguments and proofs) did counter perceptions among senior management that work-life balance was a "fluffy" human resources issue¹²⁴.

In the meantime the attitude of senior managers seems to have changed. It has to, as nowadays we are living in a society which is experiencing a shift in the expectations of quality of work-life, especially by younger generations.

¹²³ <http://labour.hrdc-drhc.gc.ca/worklife/benefitscosts-en.cf#bc>

¹²⁴ Id.

The issue of work-life balance is an important and in the same time urgent issue for both individuals and organizations because of a combination of economic, demographic and social factors (Annex 4: The 2 legs of the Work-Life Balance Leader).

The economic reality nowadays is that we are all living in a globally competitive marketplace, where deregulation of labor markets, demanding consumers and the impact of information technology have all meant that organizations must *get more from less* as we are learning to survive in a service and information economy¹²⁵.

At the same time, the nature of the workforce has changed dramatically: the share of the ageing population is increasing¹²⁶ and there is a shift in the expectations of quality of work-life, especially among young people.

Organizations recognize that they need to attract and retain good people and have them working productively as that can be a source of competitive advantage. Therefore, companies should be researching the expectations of their employees to understand their issues and values.

➤ **Absenteeism**

A survey made in Canada in 1999 found that 46,2% of the employed Canadians reported moderate to high levels of stress as a result of trying to balance their work and home lives. These stress levels are reflected in health problems and absences. Respondents who reported a high degree of stress in balancing work and family life also reported having missed work in a higher or less degree depending on the level of stress¹²⁷. Also the presence of children, especially pre-school children, was

¹²⁵ <http://www.employersforwork-lifebalance.org.uk/index2.htm>

¹²⁶ The forecast for the next 20 years is that the dependent elderly will out-number the dependent young people and an increasing number of employees will therefore have eldercare as well as child-care responsibilities

¹²⁷ The Conference Board of Canada: "Survey of Canadian Workers on Work-Life Balance", 1999

a primary indicator of time lost for family people and nevertheless the ageing workforce also contributed to increasing absenteeism¹²⁸.

The best way to address absenteeism and reducing absence rates for all groups is to provide work-life balance measures. These include policies, programs and practices pertaining to workplace flexibility, reduction of working time, leave and benefits, and dependant care initiatives.

➤ **Recruitment and Retention**

As a result of the competition for talent, the ageing workforce and the shrinking of the labor pool, the recruitment costs rose sharply. Estimates from human resource professionals and consultants indicate that to recruit a new staff member it would cost a company between two and four times the annual salary for the position. Considering this fact it would be prudent for businesses to implement necessary safeguard polices to avoid extra costs.

When employees are dissatisfied with their work experience they leave. Thus organizations have to see experience and knowledge walk out the door and down the road to their competitors. In fact, survey results show that 50% of managers would not hesitate to change jobs in exchange for a better quality of life¹²⁹. Consequently, more than ever, employers are recognizing the need to offer more than just "a job". Prospective employees are looking for a company that recognizes their commitments both inside and outside the workplace. As a result, work-life programs and policies are considered as tools for companies seeking to recruit and retain skilled employees¹³⁰.

Additionally, graduates cite work-life balance as a key influence on future decisions about whether they would, or would not, stay with their current

¹²⁸ Statistics Canada: "Work Absence Rates, 1987-1998, Analytic report No. 10, 1998

¹²⁹ Ceridian Performance Partners/ Management Today: "Time to Choose", London, 2000

¹³⁰ <http://labour.hrdc-drhc.gc.ca/worklife/businesscase-en.cf>

employer. In the same context, 57% of students stated that work-life balance is their primary goal, and don't believe this competes with long-term career development and personal growth goals¹³¹.

➤ **Motivation and Loyalty**

Employees' work-life balance has an impact on their commitment to an organization. Here are the results of several studies. An international survey of 10,000 managers in Europe, US, Russia and Japan found that balancing the needs of work and personal life was selected as the most or second most important attribute in a job. The need for balance was valued higher than remuneration in nearly every country¹³². Another survey of MBA final year students indicated that the ability to achieve a balanced lifestyle was the most important factor they would look for in choosing their first employment and 90% singled out work-life balance as a key factor in determining commitment to their employer¹³³.

➤ **Productivity**

Customer-client commitment is based on a positive experience with representatives of the organization they are dealing with. Employees who report that they have achieved work-life balance are more satisfied and more willing to 'go the extra mile' for their employers¹³⁴.

Flexibility and loyalty both improve productivity and the bottom-line¹³⁵. A survey from 2001 of 200 managers found 70% of those who work flexible hours scored

¹³¹ PriceWaterhouseCoopers: International Student Survey 1999

¹³² Gemini Consulting: "International Workforce Management Study: Capitalising on the Workforce", London: Yankelovitch Partners Inc, 1998

¹³³ Coopers & Lybrand (now PricewaterhouseCoopers): "International Student Survey Report", London: Coopers & Lybrand, 1997

¹³⁴ Study by Health Canada, 1999

¹³⁵ Absenteeism, recruitment and retention issues and low productivity impact organizations' bottom-line

higher on resilience, leadership and commitment than their “nine-to-five” colleagues. In addition, they had a 30% higher level of output¹³⁶.

The findings of a study of 100 organizations shows that loyalty boosts productivity and customer retention - a 5% swing in retention rates resulted in earnings swings of 25% to 100% up if retention is higher, down if it is lower¹³⁷.

➤ **Identifying the Benefits in the Company**

When an enterprise is developing its work-life business case, it is important to consider the tangible and intangible benefits. First of all, the work-life strategy has to be linked to the organization’s goals and objectives in order to be able to consider afterwards all the possible benefits that could arise from implementing the company’s strategy, such as for instance the potential for increased service coverage if some employees arrive earlier and others stay later, the possibility to meet customer demand due to greater flexibility, improved employee health and well-being and so forth.

In conclusion, especially in companies where work-life balance is rather viewed as “just an HR issue”, managers should continually evaluate and evolve the organization’s strategy and focus on measurable results, to prove that the adopted work-life strategy could become a powerful management tool.

How can the work-life balance be defined?

Work-life balance is about adjusting working patterns. Regardless of age, race or gender, everyone can find a way of combine work with their other responsibilities or aspirations.

Increasingly, employers are developing a wide range of work-life balance options, covering flexible working arrangements and flexible benefit packages.

¹³⁶ Knell, J & Savage, C.: “Desperately Seeking Flexibility”, London: Resource Connection, 2001

¹³⁷ Reichheld, F.: “Loyalty Rules! How Today’s Leaders Build Lasting Relationships”, Harvard University Press, 2001

I will mention a few of the most important and frequent forms of flexible work.

- ***Flexi-time*** lets people choose when they work, usually outside the agreed core times. This means staff can vary their start, finish and break times each day.
- ***Staggered hours*** means employees can all have different start, finish and break times. This allows employers to cover longer opening hours. It also offers employees more flexibility, as long as they're consulted first
- ***Time off in lieu*** is when employees take time off, in agreement with managers, to make up for extra hours worked. It's often used to compensate employees who attend meetings in the evenings
- ***Compressed working hours*** lets people work their total number of hours over fewer days. For example, you can work full-time hours over four days a week instead of five, or work nine days a fortnight instead of ten. With shift-working, employers can extend the use of their plant or facilities by letting staff work one after another through a 24-hour period. Some businesses are realising that longer opening hours and more flexible shifts mean everyone has more choice
- ***Shift swapping*** lets staff negotiate their working times and shifts amongst themselves, but have to keep the needs of the business or service in mind.
- ***Self-rostering*** involves working out the number of staff and type of skills needed each day, then letting employees put forward the times they would like to work. Shift patterns are then compiled, matching staff preferences to the agreed staffing levels as closely as possible. Self-rostering is used in some hospitals and care services.

- ***Annualised hours*** means that total working hours are calculated over a year rather than a week. This means people can work according to the peaks and troughs of activity over the year.
- ***Job-sharing*** involves two part-time employees sharing the duties of a post normally done by one. Job-sharers divide pay, holiday and other benefits.
- ***Term-time working*** makes it possible for permanent employees to take unpaid leave during school holidays.
- ***Working from home*** has been made easier due to new technology. It is possible for all kinds of work (assembly work, sewing, or providing a personal service to paid consultants working with new technology).
- ***Breaks from work*** are often due to maternity or parental and paternity leave. But some employers also offer unpaid career breaks and sabbaticals.
- ***Flexible and cafeteria benefits*** include childcare information or vouchers, funding and time off for learning, pension or insurance contributions, laundry services, use of staff facilities, and in-house medical and dental care. 'Cafeteria benefits' means a person can pick and choose those benefits that best suit their needs.
- ***Tele-working (on-call work)*** involves working at home, and using a telephone and computer to keep in touch with work.

Worldwide there are already about 1.5 million “tele-workers”, 11% of them are in Sweden. For the next decades there is estimated a growth of more than 10 millions only in Europe. Regarding this new form of employment I find following quotation relevant:

“With the information technologies already available, I can sit on the beach of my Florida home with a laptop computer and a cellular telephone and monitor the video images installed throughout my

manufacturing company in Ohio to insure that my people are on the job and doing their work properly"¹³⁸

How does it come that this employment form is that important nowadays?

We are living a period when the world is growing together in a "global village", where space and time, distance lose their relevance, their originally meaning¹³⁹. Therefore, that the labor market becomes more global-oriented, at least in the area of high technology. Thus it was made possible that high skilled programmers in India are working together on new software developing with colleagues from the USA and Europe, not having to leave their country.

In order to conclude I would like to bring the quotation of Peter Ellwood, Chairman of Employers for Work-Life Balance and Group Chief Executive, Lloyds TSB Group. He argued:

"The results¹⁴⁰ from the survey show that work-life balance is as important to employees as it is to businesses. People have increasing demands on their time, whether they have caring responsibilities or are pursuing other interests in sports or study. If businesses want to remain employers of choice they need to recognize the impact of work-life policies, which deliver benefits for both employers and employees. Work-life balance is not simply about women with children, but something that everyone can embrace, irrespective of age or gender. Interestingly work-life balance is becoming of increasing importance to younger employees. Businesses need to bear this in mind as today's young people will be tomorrow's managers"

In the UK, it was Prime Minister Tony Blair who has launched the Work-Life campaign in March 2000. The aim of this campaign was to convince employers both of the economic benefits of work-life balance and of the need for change¹⁴¹. Talking about the benefits of the work-life balance, Margaret Hodge, Education and Employment Minister, argued:

¹³⁸ Interview with company owner on U.S. National Public Radio, August 31, 1994

¹³⁹ Praxis Geographie July/August 1998, p. 8f

¹⁴⁰ Seven out of ten respondents acknowledged that they would be more motivated if their employer offered flexible working (particularly important to the age group 18-24)

¹⁴¹ "Work-life balance is for EVERYONE!", 11/05/2002, <http://164.36.164.20/work-lifebalance/>

"Work life balance means a win-win for everybody: a win for employers because they attract more people, keep their good people, cut sickness levels and enhance commitment and productivity; and a win for employees who can find a balance between work and life which meets both their needs and their aspirations."

Work-life balance means different things to different people!

Knowing that competitive success of a company is achieved through its people, then enterprises have to build a workforce that can not be readily duplicated and has the ability to achieve this success. Nowadays, with the increasing trend toward using temporary help, part-time employees and contract workers, it becomes more difficult for enterprises to create a basis of distinction relied on its permanent personnel. Let's consider an organization is employing only temporary or contract workers. Could this firm declare that its employees serve as basis of distinction, if those people actually can work for more employers at the same time?

The same question could be asked also considering the use of professional services such as accounting, management or law consulting by many corporations. The situation is in that far different, as a professional services company's distinctive competence is the skill of its staff. If those people can be obtained just as readily elsewhere and they have no attachment to a particular enterprise, thus the competitive position of professional services would be diminished. Therefore many well-managed professional services companies emphasize recruitment, selection and building strong cultures in order to retain the skilled employees who make up the basis for their success.¹⁴²

¹⁴² PFEFFER J.: "Competitive Advantage Through People: Unleashing the Power of the Work Force", Harvard Business School Press, Boston, 1994

Conclusion

Organizations are finding it increasingly difficult to survive amid the global economic downturn, especially after the 11th September 2001. As a response to this crises, most companies are busy downsizing, cutting jobs and reorganizing themselves. Those who want to achieve maximum efficiency through cost-cutting operations have often resorted to reducing their personnel. Thus, in the process of trying to trim down the fat, companies may end up cutting much of their muscle, namely their best employees. Employee turnover costs vary widely. Rather than focus on short-term efforts to trim costs, enterprises should work on long-term measures to shape human resources correlated to business strategies. Central to this strategy is the retention of talent in order to help an organization develop its business goals.

Effective Human Resources Management is critical to the success of any firm. Human resources practices will contribute to the greater financial performance and productivity as well as reduced employee turnover. The changes expected in the next few decades will cause many challenges to human resource professionals. Therefore, in order to facilitate these changes, many roles and competencies must be developed and the necessary tools such as information technology should be sought to aid along with the process.

Over the last 20 years, the workplace has changed in more ways that one could have ever imagined, resulting from the increase in technology, innovation and globalization. The next decade will bring even greater change, impacting all facets of the workplace, including major changes for the Human Resources Department and

human resource managers. In order to respond to the demands of globalization, HR managers will require new skills and competencies relating to language and culture, technological capabilities to facilitate overseas communication, methods to measure and quantify effectiveness and evaluate strategies and return on investment. Evidently, these new skills and competencies will result in an emerging new role for HR managers, requiring them to be strategic business partners, supportive of the overall corporate strategy.

The future of role of human resources professionals will change from a less administrative role to more of a strategic role (Workforce, January 1998,89). HR managers will continually be required to prove their effectiveness and their existence. They will be expected to understand international business practices and promote cultural diversity within the organization. They will need to understand the core business of the organization and become partners with line managers. They will need to prove that their initiatives and programs are results-oriented, providing specific measurable results in terms of business competitiveness that contribute positively to the bottom-line of the organization. They will be required to stay current with leading-edge as more and more organizations are faced with the demands of globalization and strategic alliances with other organizations around the world.

In the era of globalization money is the equivalent of power, either political or economic power. Those who are provided with financial capital can afford almost everything as they have the means to invest. Let's assume someone is investing in product and process technology in order to achieve competitive advantages through product standardization achieved through economies of scale. Thus it will be possible to produce a cheap "global product" that is competitive on the "global

market". In order to purchase the product, the enterprise will use some "global marketing" strategies.

Nowadays everything seems to have a global dimension. We are talking about the global customer which has a global behavior on the global market in order to purchase the best (= cheap?) global product that is globally promoted (why not the Cocalization?).

One will probably wonder why I have talked around this word 'global' that much in the last sentences. I have deliberate exaggerated a little bit on the topic "global"

because what I want the other to reflect a little bit about, is the following question:

Is indeed everything linked to a global enterprise already "global"?

Actually there is already the concept of global

customer/product/marketing/market/enterprise but where is the human factor to find?

That is the challenge: defining a global policy for human resources!

References

- “Globalisation and the historic course”, 13/02/2002,
www.geocities.com/wageslavex/globalhc.htm
- “Globalization, Growth and Poverty: Building an Inclusive World Economy”,
22/04/2002, <http://econ.worldbank.org/prr/subpage.php?sp=2477>
- “Globalization: Threat or Opportunity?”, January 2002, 13/05/2002,
<http://www.imf.org/external/np/exr/ib/2000/041200.htm#I>,
- “Investment Winners and Losers”, Money, October 1992, p. 133
- “Services: Multinational/Globalization Issues”, M&A Mercer, 7/05/2002,
http://www.mercerhr.com/service/list.jhtml?idLanguage=500&idCategory=16000000&_requestid=68887
- “The Impact of Globalization on Developing Countries: Risks and Opportunities”, 29/01/2002,
www.planalto.gov.br/publi_04/COLECAO/IMPACT3.htm
- ADLER (Paul S.): “The ‘Learning Bureaucracy’: New United Motor Manufacturing, Inc.”, in Barry M. Staw and Larry L. Cummings (eds.), *Research in Organizational Behavior*, JAI Press
- AKERLOF (George): “Gift Exchange and Efficiency Wage Theory”, *American Economic Review* 74, 1984
- BLUESTONE (Barry), BLUESTONE (Irving): “Negotiating the Future”, Basic Books, New York, 1992
- BROWN (Clair), REICH (Michael), STERN (David): “Becoming a High Performance Work Organization: The Role of Security, Employee Involvement and Training“, Working Paper 45, Institute of Industrial Relations, Berkeley University of California, 1992
- BUZZELL (Robert), GALE (Bradley T.): “ The PIMS principles: Linking Strategy to Performance”, Free Press, New York, 1987
- CHESNAIS (François): “La mondialisation du capital”, Syros, Paris 1997
- COEN R.M., HICKMAN B.G.: “Is European Unemployment Classical or Keynesian?”, *American Economic Review*, 1988, vol.78, 188-93
- COHEN (Daniel): “Fehldiagnose Globalisierung: Die Neuverteilung des Wohlstands nach der dritten industriellen Revolution”, Campus Verlag, Frankfurt/New York, 1998
- DEMAZET (Bertrand), BUTLER (David), CANONNE (Robert): “Business and Globalization”, ellipses/edition marketing S.A., Paris 1999
- DOHNANYI (Klaus von): “Im Joch des Profits: Eine deutsche Antwort auf die Globalisierung”, Deutsche Verlags-Anstalt, Stuttgart, 1997
- ESCHENBURG (Rolf), DABROWSKI (Martin) (Hrsg.): “Konsequenzen der Globalisierung: Ökonomische Perspektiven für Lateinamerika und Europa“, Band 6, LIT, Münster, 1998
- FORZLEY (Lubna): “The Key to Managing Human Resources in the 21st Century”, University of Ottawa, 1999, 13/02/2002, <http://www.ipma-aigp.ca/studentweb/essay.htm>

- FRIEDMAN (Milton): The role of monetary policy, American Economic Review, March 1978
- GENOV (Nikolai): "Risks of Unemployment: Global, Regional and National", 10/12/2001, www.fes.de/fulltext/bueros/sofia/00621001.htm,
- GEUS (Arie de): "The Living Company: Growth, Learning and Longevity in Business", Nicholas Brealey Publishing, London 1997
- GOGUELIN (Pierre): "L'Étude du Travail: Évolution, Méthodes, Perspectives", Gaëtan Morin Éditeur Europe, Paris, 1998
- "Encyclopédie des ressources humaines: Ressource Humaine et Stratégie d'Entreprise", Groupe Térance, Tome 3, Les Éditions d'Organisation, Paris, 1994
- HALCROW (Allan): "Survey Shows HR in Transition Workforce", 1998
- HOLCMAN Robert: "Le chômage: Mécanismes économiques, conséquences sociales et humaines", La documentation française, Paris, 1997
- KELLER (Maryann): "Rude Awakening: The Rise, Fall and Struggle for Recovery of General Motors", Williams Morrow, New York, 1989
- KEMSKE (Floyd): "HR 2008: A Forecast Based on Our Exclusive Study", Workforce, January 1998, pp. 46-60
- KORTEN (David C.): *When Corporations Rule the World*, Kumarian Press Inc. And Berrett-Koehler Publishers, Inc., New York, 1995
- LACHMANN (Werner), FARMER (Karl), HAUPT (Reinhard) (Hrsg.): "Globalisierung: Arbeitsteilung oder Wohlstandsteilung?", LIT, Münster, 1998
- LEFTER (Viorel): "Human Resources Management", Economica, Bucharest, 1999
- LEVINE (David I.), D'ANDREA TYSON (Laura): "Participation, Productivity and the Firm's Environment", in *Paying for Productivity*, Blinder
- LUBRANO Filippo: "Delocalization: What is it?", http://www.ecom.unimelb.edu.au/acib/pdf%20files/dis_01.pdf
- MANSFIELD (Edwin), SCHWARTZ (Mark), WAGNER (Samuel): "Imitation Costs and Patents: An Empirical Study", *The Economic Journal* 91, p. 907-918
- MOCKLER (Robert J.): "Multinational Strategic Management: An integrative Context Specific Process", Economica, Bucharest, 2001
- PASCALE (Richard): "Managing on the Edge", Simon & Schuster, New York, 1990
- PFEFFER (Jeffrey): "Competitive Advantage Through People: Unleashing the Power of the Work Force", Harvard Business School Press, Boston, 1994
- PIANTA (Michele): "Unemployment, Structural Change and Globalization: Unemployment and Aggregate Demand", 26/01/2002, <http://www.itcilo.it/english/actrav/telearn/global/ilo/art/1.htm>
- PORTER (Michael E.): "Competitive Advantage", Free Press, New York, 1985
- PRESLEY NOBLE (Barbara): "An Approach with Staying Power", New York Times, 8th March 1992
- PRICOP (Mihai), TANȚĂU (Adrian): "Globalization and Firm Strategy", Eficient, București 2001
- REICH (Robert): "L'Economie mondialisée", Dunod, Paris 1993

- RIECKMANN (H. J.): "20 Thesen zur zukünftigen Managemententwicklung in der Wirtschaft", Neue Trends im Personalwesen, Hrsg. M. Kastner und B. Gerstenberg, Verlag Moderne Industrie, Landsberg am Lech, 1988
- RUTTER (John W.): "Recent Trends in International Direct Investment and the implications for U.S. Business", U.S. Industrial Outlook 1990
- SAFIZAHED (Hossein M.): "The Case of Workgroups in Manufacturing Operations", California Management Review 33, 1991
- SALAI (Robert), BAVEREZ (Nicolas), REYNAUD (Bénédicte): "L'invention du chômage", Coll. « Economie en liberté », Presses universitaires de France, Paris, 1986
- SCHWEIGLER (Gebhard): "Globalisierung – eine Folge der Weltinformationsgesellschaft", Informationen zur politischen Bildung Nr. 263/1999
- THIGPEN (Peter): "New versus Old Paradigms at Levi Strauss", Presentation at the Stanford School of Business, 26th February 1991
- TRABOLD (Harald): "Gesellschaftliche Auswirkungen internationaler Wirtschaftsentwicklungen", Informationen zur politischen Bildung Nr. 263/1999
- ULRICH (Dave): "A New Mandate for Human Resources", Harvard Business Review, January/February 1998
- VOINEA (Liviu): "Transnational Corporations and National Economies", I.R.L.I., București, 1999

ANNEX

Annex 1: “Evolution of Unemployment Rates (1999-2002)”

Annex 2:

2.1. “OECD Standardised Unemployment Rates”
(2001-2002)

2.2. “Standardised Unemployment Rates”
(1998-2001)

Annex 3: “How Romanians Perceive Multinational Enterprises”

Annex 4: “The 2 Legs of the Work-Life Balance Ladder”