WHAT’S NEXT:
FUTURE GLOBAL TRENDS
AFFECTING YOUR ORGANIZATION

Engaging and Integrating
a Global Workforce
The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For almost 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide.

The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where its latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

Copyright

© 2015 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author’s and the publisher’s ability. However, the Economist Intelligence Unit does not accept responsibility for any loss arising from reliance on it.
TABLE OF CONTENTS

Foreword 4
Executive summary 5
Introduction 7
Driving forces behind a globalized workforce 8
  Free movement of goods and services 8
  Expansion of transnational companies 10
  Technological advancement 12
  Labor migration 13
  Greater risk exposure 15
Profile of the global workforce: present and future 17
  Age profile 17
  Gender diversity 20
  Size of the workforce 21
  Education and skills 22
  Talent flow 23
  Temporary workers 26
  Remote workers 27
Cultural differences: Inevitability in a global economy 29
  Culture defined 29
  Culture complexities 30
  Culture: distance and friction 31
  Cultural issues in the workplace 32
  Cultural diversity – a liability, an asset, or both? 35
Corporate social responsibility and global workforce dynamics 37
  CSR in the global context 37
  The business case for CSR 37
Challenges for human resource management and global business strategy 41
Conclusion 45
Appendix 46
FOREWORD

As organizations become increasingly global, business success often hinges on a leader’s ability to bridge cultural differences and build a productive, cohesive workforce spanning multiple countries or regions. This presents a new set of challenges for HR professionals and other leaders.

At the SHRM Foundation, we believe that understanding the fundamental changes impacting the world of work is the first step towards preparing for them—and ultimately leveraging them for competitive advantage. That’s why we launched a multi-phase initiative to identify and analyze critical trends likely to affect the workplace in the next 5-10 years. Through a rigorous process of surveys, expert-panel discussions and analysis conducted in partnership with The Economist Intelligence Unit (EIU), we identified the following key themes:

1. **Evolution of work and the worker.** (2014) The globalization of business, changing demographics and changing patterns of mobility will continue to transform the nature of work and the worker.

2. **Engaging and integrating a global workforce.** (2015) Cultural integration and clashes/unrest will continue to grow globally, at both societal and corporate levels.

3. **Use of talent analytics for competitive advantage.** (2016) Talent shortages will continue to grow globally, requiring HR to become the provider of human-capital analytics for input to strategic business decision-making.

Focusing our program of work on one key theme each year, our goal is to drive evidence-based research and identify solutions. This report, *Engaging and Integrating a Global Workforce*, presents the data and evidence to support and explain theme 2. It provides relevant background information and data for researchers interested in the many questions raised. Additional materials will be created to identify specific implications for HR and to guide future research.

We encourage you to get involved. Share this report with your colleagues, use it in the classroom, or design a research study to extend our knowledge of these issues. You can also support the initiative with a tax-deductible contribution to the SHRM Foundation at shrmfoundation.org. To read the theme 1 report and learn more about this project, please visit our digital hub at futureHRtrends.eiu.com.

Now, let’s explore the challenges and opportunities of *Engaging and Integrating a Global Workforce*.

*Mark J. Schmit, Ph.D., SHRM-SCP*
*Executive Director, SHRM Foundation*
*February 2015*
EXECUTIVE SUMMARY

Key findings from our research into global trends impacting the future of HR management include the following:

- **The boost in global trade and the expansion of transnational companies have resulted in cross-cultural workforces**

  Trade liberalization and technological advancements have encouraged companies to expand internationally and trade their products and services on a global scale. The world’s largest companies have stretched across borders to the point where they have greater operations and more employees in other parts of the world than in their countries of origin. Foreign direct investment (FDI) in developing countries now accounts for more than half of global FDI inflows, reaching a new high of US$759 billion in 2013. Free trade is an agent of economic progress, and technology has opened access to a global talent pool. This international expansion by companies will continue, as will the internationalization of the world’s workforces.

- **Global interdependencies increase exposure to risks**

  Binding companies through infrastructure and trade links brings great opportunities, but it also increases operational risks. Seismic events, whether economic, political, regulatory or societal, impact the entire value chain in developing and developed countries.

- **The global workforce is ageing and becoming both gender and ethnically diverse**

  Older workers will grow in number globally, while in developed countries the share of youthful workers declines, resulting in shortages in those countries. The shortages will be remediated somewhat by older workers who stay in the workforce. Women have surpassed men in education, and 1 billion will enter the workforce over the next two decades. More workers are also migrating or are being hired across borders. Organizations thus need to adapt to the needs of older workers, women and multi-ethnic workforces.

- **Skilled workers from emerging countries will improve productivity while seeking higher wages across borders**

  Workers are becoming better educated and more skilled globally, resulting in higher productivity. The number of educated workers is near parity between OECD and non-OECD countries, and individuals are migrating abroad in search of better opportunities and wages.

- **Remote and temporary workers increase flexibility to meet labor needs but increase demands on management**

  Remote and temporary workers address short-term labor demands and provide a hedge against risk without increasing ongoing costs. However, management needs to understand how to transfer knowledge from temporary to permanent employees and how to develop a corporate culture that keeps people engaged and maintains productivity.

- **Organizations struggle to balance societal culture and their corporate culture**

  Culture impacts productivity. Two types of culture exist: societal culture develops very slowly and becomes a part of a person’s self-identity. Corporate culture comprises the values, beliefs and practices a company chooses to adopt. Organizations need to understand how to manage cultural distance—the gaps between cultures—and the points of friction. They also need to understand how and when to impose their corporate culture.

- **Cultural differences affect management styles and employee development**

  Many merger and acquisition (M&A) failures are attributed to culture. Employees from different backgrounds are motivated by different incentives and react differently to various management and communication styles.
- **Cultural diversity contributes to success**

Local labor brings in-depth cultural understanding that organizations can use to their advantage and to avoid missteps. Multicultural workforces also contribute to creativity and innovation thanks to diverse perspectives and experiences.

- **Corporate social responsibility helps manage risk while boosting the bottom line**

Socially responsible organizations adopt rights-aware, anti-corruption policies that improve recruitment and retention, reduce risk and solidify the corporate brand. By ignoring corporate social responsibility (CSR) they risk incurring legal penalties, even if violations occur remotely in the global supply chain. Local customs and competitor actions may be contrary.
INTRODUCTION

Borders are no longer restrictive. Companies are not constrained by the physical boundaries of the countries where they are located and can now choose from the best talent available to build innovative and competitive global workforces. Many workers in emerging countries are as skilled as those in developed countries; women outpace men in higher education; and older workers are staying in their jobs longer. Businesses no longer have a “typical” worker—diversity in terms of gender, ethnicity and religion abounds within organizations.

To understand how the make-up of the global workforce has shifted and will continue to do so, it is crucial to first explore the forces that are driving these changes. Expansion of transnational companies, migration patterns and technological advances are the characteristics of an increasingly globalized world and economic system. Of course, with the increased diversity and internationalization of the workforce comes the unavoidable clash between personal culture and corporate culture. Additionally, there are new challenges associated with global operations—including human and labor rights violations, corruption and local regulations—that have forced companies to look for new ways to manage risk while increasing opportunity.

These are just some of the implications of a truly global and interconnected work environment. This paper seeks to explore the driving forces behind the globalization of the workforce, the new demographic profile of that workforce, how the global workforce of today and tomorrow will impact corporate culture and corporate social responsibility, and the ways in which HR can address this changing environment.

Before this can occur, however, it is imperative to answer a key question: what is a global workforce? Though this question has many answers and can encompass a broad spectrum of issues, for the purposes of this paper the global labor force is one that has been integrated into the interconnected system of global capital movement. This integration manifests itself in two separate ways:

1. Through its connection to international production and exchange structures. As economic activities—such as trade and production—across the world merge, there is increased connectivity among workers.

2. The increase in personal, organizational and economic links among workers globally drives the internationalization of structures further and has created a more interconnected workforce that is impacting—and in certain cases driving—the development of global corporations and international organizations.1

As the “West to East” economic movement persists and a combination of trade and technology allows for further interconnectedness, firms are finding it necessary to develop effective approaches on how to best engage and integrate their employees. Identifying geographies with attractive talent, blending corporate and local cultures, understanding the value of diversity and establishing effective risk-management practices are all challenges that companies will face as they seek to take full advantage of the future global workforce.

---

DRIVING FORCES BEHIND A GLOBALIZED WORKFORCE

The globalization of today’s workforce has not developed on its own, but rather through a set of interlinked forces. The greater openness of economies, the never-ending push by firms to support the bottom line via resource- and market-seeking efforts, the growth of labor migration and technological advancements have all played a role in globalizing the deployment of human capital. Understanding these factors and their underlying drivers is critical not only to understanding the current make-up of the global workforce, but also its future trajectory.

Additionally, labor migration has grown significantly as increasingly well-educated workforces in the developing world have searched for more attractive economic opportunities in more developed regions. Companies, therefore, have reduced their reliance on the fortunes of their own domestic or regional marketplace, and prospective employers are more likely to seek business opportunities outside their home countries.

But even well-educated workers who do not venture abroad—constituting by far the overwhelming proportion of the global workforce—are still much more likely to work in a more international environment than their counterparts a generation or two ago. Growing numbers of people have poured into cities where international commercial connections are much more widespread and deeply embedded than in rural areas.

Free movement of goods and services

At the forefront of these forces has been the relaxation of trade barriers. Regionally, these have dissolved with the advent of free-trade zones in Europe, North America and Asia, including the European Union (EU), the North American Free-Trade Agreement (NAFTA) and the Association of South-East Asian Nations (ASEAN). Common economic benefits of such zones include the deferral or elimination of customs duties and exemption from certain taxes.

Boosted by this open economic principle, global trade has grown considerably over the past years. Indeed, statistics continue to demonstrate this growth in the movement of goods and services as well as its geographical diversity:

- Merchandise exports of World Trade Organization (WTO) members totaled US$17.3 trillion in 2012, with exports of commercial services amounting to US$4.25 trillion. Developing economies accounted for 42 percent of world merchandise trade and 35 percent of trade in world commercial services, with Brazil, Russia, India and China (the BRICs) contributing much of this share. Although the United States was the leading merchandise trading nation overall, China exported more than any other country.2

- Global exports have more than doubled since 2003, with the developing world responsible for much of that increase and for the resulting intensification of economic competition. Europe’s share of merchandise exports de-

---

clined from 45.9 percent in 2003 to 35.6 percent in 2012, despite the value of European exports nearly doubling during this period. Meanwhile, China’s export share jumped from 5.9 percent to 11.4 percent. Africa, the Middle East and Central and South America also registered significant increases in their shares, albeit from lower levels.3

The trend towards trade liberalization has brought stiffer competition, making constant innovation a must for companies wishing to maintain and improve their market position. This, in turn, has led to better products and services for customers. Companies themselves have been able to realize global economies of scale, increase their market share by selling products more widely, and secure cheaper property and labor.

Although the concept of free trade is now widely accepted as a vital agent of economic progress, significant popular opposition still lingers, particularly during times of austerity. Since the onset of the 2007/08 financial crisis there have been more instances of public discontent with globalization, and support for political parties which openly oppose the status quo has grown. The elections to the European Parliament in May 2014 provided a clear example of this trend, with the economically protectionist and anti-immigration National Front in France winning the leading share of the vote at around 25 percent. More recently the Syriza party in Greece, which advocates renationalization and a steep rise in taxation for wealthier citizens, achieved a similar result at the national election in January 2015.

Governments, therefore, have periodically resorted to protectionist measures. In early 2014, for example, Indonesia’s parliament passed a new trade law handing authorities far-reaching powers to restrict exports and imports, with the aim of insulating local producers against foreign competition.4

Though protectionist measures in the trade of goods—through tariffs and quotas—are easily monitored, the same cannot be said about protectionist measures in services trade. The latter are usually embedded in domestic laws and regulations, making them harder to monitor, and once altered they are tougher to undo. With the growing importance of services trade, which by WTO definition encompasses a range of services from health and transportation to e-commerce and temporary migrants, policymakers need to grasp the urgency of promoting a freer flow of services at both the national and the global level. In 2012, when global foreign direct investment (FDI)—defined as an investment made by a company or entity in one country into a company or entity based in another country—was deteriorating, FDI in the services

3 Ibid.

sector, such as business services, finance, trade and transportation, was the most resilient.5

One part of services trade that is growing rapidly is digital trade/e-commerce, which involves the distribution of products via the Internet. The industry is growing at a rapid pace (exports from the United States alone increased by 26 percent from 2007 to 2011, to reach US$356 billion).4 A survey of 3,600 businesses across the US revealed that some of the biggest obstacles in the sector are localization requirements, market-access limits, data privacy and protection requirements, intellectual property rights infringement, uncertain legal liability rules, and customs measures in other countries.7 If these obstacles were to be eliminated, it is projected that sales would increase the sector’s contribution to US GDP from US$16.7 billion to US$41.4 billion (an increase from 0.1 percent to 0.3 percent).

As cross-border trade has risen, individual companies have sought to diversify and expand existing operations to counteract stagnation in domestic demand. At the same time, governments have sought ways to attract foreign investment to boost macroeconomic performance. A direct consequence of increasing cross-border trade is that many more workers are now communicating on a regular basis with colleagues and clients across the world.

**Expansion of transnational companies**

Falling trade barriers have been part of a larger economic liberalization story that has further propelled companies to operate and compete abroad. From the privatization of previously state-owned utilities to the relaxation of local regulations to allow for the greater inclusion of foreign investors, countries as large as China and as small, but attractive, as Chile have become destinations for firms in search of top- and bottom-line growth.

Initially the primary factor driving companies abroad was resource-seeking,8 not just for hard assets such as commodities but also human capital (skilled and unskilled). As an example, in many global industries with a heavy manufacturing component, multinational firms entered China attracted by low wages and an abundance of labor. Indeed, in 2004 over 70 percent of the FDI coming into China was in manufacturing, at the time a sector well-known for its labor-intensive nature.9

However, with time other motivations—namely, market efficiency and/or strategic asset-seeking—have come into play. China’s evolution provides a prime example, as both the size of its domestic market and its importance as a supply-chain hub have now become the trigger for local investment. With over 40 percent of electronics manufactur-

---

Engaging coming into the Asia-Pacific region (minus Japan), firms have appreciated China as gaining strategic proximity to their clients. Intel’s decision in 2007 to build a chip-manufacturing facility in Dalian, China reflected the need not only for lower labor costs, but also for greater efficiency in reaching their customer base.  

Independent of the motivating factor for international expansion, increased economic liberalization has meant that many of the best-known and largest companies in the world now hold only a small minority of their assets in the countries where they were originally founded, which has an obvious impact on the whereabouts of their employees. Transnational companies—companies that own or control operations in one or more foreign countries—generate substantial employment throughout the world. The UN Conference on Trade and Development (UNCTAD) estimates that foreign affiliates of transnational companies employed 69 million workers in 2011, generating sales of US$28 trillion.  

For example, General Electric (GE), established in the late 19th century in the United States, had over US$330 billion worth of foreign assets in 2013, amounting to more than 50 percent of its total. More than half of its 300,000-strong workforce is based outside of the United States. In 2012, of the 100 companies with the most foreign assets, 17 held over 90 percent abroad, including ArcelorMittal, Nestlé, Anheuser-Busch InBev and Vodafone.  

Much of this corporate activity is now located in developing countries. FDI to the developing world reached a new high of US$759 billion in 2013, accounting for more than half (52 percent) of global FDI inflows. Greenfield activity (building new operations from scratch) constitutes the majority of global FDI. The direction of FDI flows continues to shift, with now well-established, international companies based in developing countries expanding operations aggressively in the developed world. Within NAFTA, mergers and acquisitions (M&As) by companies from developing countries increased by 63 percent in 2013, to US$37 billion. Tata Group, the Indian multinational conglomerate which earned more than two-thirds of its US$103 billion revenue from abroad in 2013, and Haier Group, the Chinese multinational consumer electronics company which sells its products to consumers in more than 100 countries, both reflect this trend.

The implications of economic liberalization for global talent—whether from traditional resource-seeking or more advanced driving factors—have been a more diverse firm-level workforce and a more dispersed location of human capital in an industry’s value chain. More importantly, the internationalization of the workforce will continue to run parallel with economic globalization. A 2012 Economist Intelligence Unit (EIU) survey found that the vast majority of companies interviewed were planning overseas expansion in the short term. These companies include a substantial number that are not transnational in the strict definition of the term, but nevertheless trade with foreign entities while based solely in their home country (see figure).

### Technological advancement

The expansion of transnational companies is also closely tied to technological advancement. The proliferation of modern communications technology has enabled companies and their employees to transform the way in which they interact with customers and colleagues in distant locations. Regardless of the physical distance, instant communication and access to relevant information have become readily available and have encouraged greater collaboration across borders.

Beyond financial performance, technology-enabled communications may also improve team work and build a stronger corporate identity across borders. When global companies place their talent around the world, the conventional wisdom is that employees located far from headquarters will feel detached and isolated, thus decreasing their productivity and sense of company integration. Technology can eliminate this problem. Continuous interaction through emails, chats, cloud collaboration platforms such as Dropbox, Google Docs and Evernote, even without a face-to-face interface, can increase trust among dispersed team members.17

Within the individual company, current technology-enabled communication channels—from email to video conferencing—facilitate cross-border collaborations and are crucial to improving organizational performance. An EIU survey of 572 executives found that the overwhelming majority of respondents (bordering on 90 percent) believe that if cross-border communication were to improve at their company, then profit, revenue and market share would improve as well (see figure)18.

Real-time information system technology that can keep track of a company’s resources—from logistics to human resources—enables modern companies to undertake more sophisticated recruitment planning, detecting supply gaps and finding suitable candidates to fill those gaps anywhere in the world. In reality, however, this has not yet seen widespread adoption. According to Jim Schultz, Chevron Corporation Advisor to the Human Resources Vice-President, the technology of workforce planning is sure to be a major boon for international companies, but has still to be perfected: “Getting the right expertise and mix of people (engineers, construction workers, consultants) in a particular place at the right time will become yet more important as we start to operate as a genuinely global company,” he says. “There is substantial complexity involved in these calculations, and no one has yet perfected that system globally. We need an algorithm that enables human resources to be allocated in the most efficient way.”

---


Developments in technology have also greatly assisted the process of locating and recruiting suitable employees. Job vacancies, which may previously have only been advertised in provincial newspapers or through the personal network of domestic recruitment agencies, are now disseminated far and wide through the Internet. Globally minded employees can identify opportunities abroad or in multinational companies based locally through a variety of online channels such as LinkedIn. Social media are already the preferred outlet for many jobseekers, especially in Asia (see figure).

Additionally, Internet proliferation helps reduce the cost of research, the cost of coordinating with foreign counterparts and even the cost of hiring internationally. Further still, digital platforms, such as Kickstarter for crowdfunding and Alibaba and Amazon for distribution, have reduced the previously restrictive costs of access to finance and distribution to smaller businesses, and in turn have enabled more of them to engage in international trade.

Crowdsourcing is also being used by some firms and will likely be used by many more in the future. Using these innovative Internet technologies, companies can break jobs into discrete tasks that they can offer to internal employees or groups of freelancers to complete. Technology platforms such as oDesk, Elance and Guru, which serve as a market where freelancers and companies meet, enable companies to tap into a flexible workforce market, but by doing so they also displace traditional workers. Additionally, for tasks that can be sourced internationally, these sites enable companies to capitalize on internationally competitive wages as some of these freelance platforms allow both sides to bid on compensation.

However, advancements in communications technology alone are not sufficient for companies managing a global team that is both dispersed and multicultural. As companies expand across borders, managing talent and ensuring that organizational values are consistent across the board becomes more challenging. International rotations, short- to medium-term assignments (6-8 months) and focusing on specific business needs are particularly effective ways to ensure that organizational culture and values are maintained across borders.19

**Labor migration**

Another mega-trend impacting the make-up and utilization of the global workforce is labor migration, both across borders and within a country. Economic prosperity, the rapid rise in educational standards in parts of the developing world, and greater integration across markets continue to contribute to labor mobility and cross-border migration. The total number of international migrants rose from 154 million in 1990 to 232 million in 2013, with most of this traffic directed to OECD countries. Migrants are increasingly living in high-income countries, with an estimated 69 percent of migrants residing in high-income countries in 2013, compared with 57 percent in 1990. Around half of international migrants reside in ten countries—the United States alone accounted for 20 percent of the total number in 2013, followed by Russia, Germany, Saudi Arabia, the United Arab Emirates and the United Kingdom. One of the countries with the highest percentage of migrants in its workforce was Qatar with 87 percent.20

---


20 International Organization for Migration, Migration Facts and Figures. (https://www.iom.int/cms/media/infographics)
These modern cross-border migrants are looking to pursue economic opportunities and are increasingly coming from middle-income countries. Approximately 135 million, or six in ten, migrants in 2013 were born in middle-income countries, compared with less than half, or just 74 million, of migrants in 1990. About 50 percent of migrants in the OECD economies came from 16 countries. Mexico easily topped the list with 11 million emigrants (predominantly to the United States), way ahead of China (3.8 million), followed by the United Kingdom, India, Poland (where emigration rose steeply after the country’s 2004 accession to the European Union, which allows free movement of labor within its constituent countries), and Germany.

Labor migration does not stop at national borders, as the urbanization trend at the country level has also become a driving force. Motivated by the same economic prospects and social needs, well over half (54 percent) of the world’s population lives in an urban environment—a radical shift from 1950, when nearly two-thirds resided in rural areas. While regional differences still exist (the urbanization rates in the Americas and in Europe are currently above 80 percent and 70 percent, respectively, while in Asia and Africa they continue to be below the 50 percent threshold), this gap will continue to close. Nations such as India and Nigeria will be adding 404 million and 212 million urban dwellers respectively between 2014 and 2050, with mega- and medium-sized cities as the beneficiaries. China’s internal city migration story has been particularly stunning—from 140 million people in 1980 to 670 million by 2010 to an expected 938 million by 2030.

The effect of migration on the global workforce has been obvious, with access to a larger pool of candidates to meet firms’ needs. Transnational corporations (TNCs) have recognized this shift and have become aggressive in targeting the best talent. A cross-country study of FDI by the OECD showed that foreign TNCs offer a 40 percent higher wage than local firms, while domestic multinational enterprises (MNEs) offer a 15 percent higher wage than local firms. The magnitude of wage premiums varies across the regions—they are considerably larger in low-income developing countries, including parts of Asia and Latin America, than in Europe—but it remains a significant factor everywhere and gives TNCs a leg-up in the competition to attract the best talent. Additionally, by offering pro-

---

23 Ibid.
24 The Economist Intelligence Unit, “China’s urban dreams and the regional reality”, 2014.
spective employees access to their global network through internal corporate transfers, placements abroad or international training, TNCs appeal to the globally minded workforce.

Realizing the tough competition posed by TNCs, local private employers and governments have started to offer better career development opportunities and benefits. In China, for example, TNCs have begun to feel the pressure of tougher competition for hiring talent: a survey of Chinese job-seekers in 2010 revealed that the number of respondents putting TNCs as their primary choice was down by 10 percent, while the number of those who chose Chinese private companies was up by 5 percent.25

Greater risk exposure

While the confluence of globalization forces has generated numerous opportunities for firms to exploit and has increasingly bound economies together through more efficient infrastructure networks and trade links,26 this shift has also resulted in a greater exposure to local operating risks. The potential for significant negative impacts from local events—whether economic, political, regulatory or societal—which might have consequences that trickle down both at a global and a firm level, is higher. Moreover, increased global interdependency means that companies, regardless of whether they themselves are international, are impacted.

A prime example of the direct and indirect consequences of risk is the recent Russia-Ukraine conflict. As international sanctions against Russia for its actions in Ukraine increased in the summer of 2014, American and European companies, especially carmakers and energy conglomerates, girded themselves for the possible repercussions and acted to limit the risks of the conflict to their businesses. The French oil company Total SA stopped increasing its stake in Russia’s second-largest natural gas producer, OAO Novatek. British Petroleum warned investors that sanctions could weigh against its future earnings, while French carmakers Renault SA and PSA Peugeot Citroën both issued warnings about the repercussions for the Russian automotive market from a sliding domestic economy.27

However, European, Russian and American companies were not the only ones which considered the impact that sanctions could have on their businesses. As the European Council on Foreign Relations noted, the reduction of European energy dependence on Russia would inevitably result in Europe looking to the Middle East for oil. The Iranian energy market could look more attractive, European leaders could seek to drive a wedge between Russia and Iran, or Europe could focus on Libya as a potential energy source.28 This political shift would have an unexpected impact on the current political dynamics between the United States, Europe and Iran. Closer ties between the Iranian energy market and European energy companies could result in production increases in Iran that could drive job growth in the Iranian oil sector. Negotiations between Europe, Iran and Libya could result in European energy companies mov-

Engaging workers to, or hiring workers in, Iran or Libya, while Middle Eastern companies could seek employees in Europe.

The Russia-Ukraine scenario demonstrates the downsides of operating internationally; for a more global firm (and those across the value chain), this means a higher probability of being faced with such situations. In this sense, the growth of global risk exposure has made it crucial for companies to understand the nature of the risks they might encounter. While risk presents itself in obvious areas (such as political corruption or exchange-rate volatility), it is not limited to the macroeconomic or political environment, as issues range from labor strikes in Vietnam to worker lawsuits in Brazil. At the same time, it has been assumed that the developed world is less risky than the developing world; however, stagnation and heavy debt in the developed world, especially since the recession, have begun to make the operational risks (such as political stability and labor-market risk) in the developing world a challenge that many companies are willing to face owing to the potentially high returns in these fast-growing markets.

Many companies are looking to counter global risks by becoming too diversified to fail. Emerging economies offer many business opportunities that make them compelling markets for multinationals. GE, for example, has investments in China that span dozens of sectors and timelines. This diversification of products and time frames allows GE to make new investments and promote new products through local partners as the old ones become less attractive. Even if global risks impact one sector or a specific investment, this constant variation and expansion ensures that China remains one of GE’s most lucrative markets.29

---

PROFILE OF THE GLOBAL WORKFORCE: PRESENT AND FUTURE

As the workforce becomes more global—a product of the economic, political, social and technological forces described in the previous section—the dynamics underpinning human capital have been altered extensively. Today, the profile of the average global worker entails a myriad of characteristics:

- An older, more gender and ethnically diverse workforce, with increased interconnectivity, has become the standard;
- Country of origin and ethnicity no longer dictate a worker’s geographical scope, especially with developing countries producing at least as many skilled, educated workers and managers as developed countries;
- Working from remote locations no longer prevents employees from communicating with their colleagues, allowing teams to collaborate with ease across national borders and time zones;
- Increased global connectivity means that workers can move around more frequently and might choose to migrate for both permanent and temporary jobs.

While all these changes have positive implications for firms and workers alike (more opportunities, greater flexibility, etc.), they also come with negative repercussions. The dearth of experienced leaders, the lack of cultural knowledge, inconsistent educational standards and greater risk exposure all imply new challenges not encountered in previous decades. Thus, understanding how the workforce profile has evolved and will continue to change is critical if firms and society in general are to be able to maximize its potential and minimize its downsides.

Age profile

The make-up of the global population is undergoing a profound shift—a shift that started about 50 years ago and is projected to continue over the next 50 years. In the past, when short life expectancy and high mortality rates were the norm, the pyramid used to be a common way of visualizing the age structure of a society. Children formed the largest group at the bottom of the pyramid, while the elderly accounted for the smallest group at the top. This population pyramid has ceased to exist.

Today the global population is undergoing a transformation unlike anything before, and its age structure is increa-
ingly shaped like a dome (see chart). Over the last 50 years the global fertility rate—the average number of children born to a woman over her lifetime—has halved from 4.99 children per woman in 1965 to 2.47 in 2012. As a result of this large decline, families today are much smaller. In 2015 those aged 5-40 will account for roughly the same percentage of the population. Given today’s longer life expectancy, which increased by 15 years to 70.8 years over the period 1965 to 2012, most people are now living longer than their parents. During the period 2015–2060, ageing will have the largest impact on the population structure.

This transformation of the age structure of the population will have a profound impact on the make-up of the workforce globally. Pronounced variations exist across countries with regard to the ageing of their populations and the size of their youth labor force, itself a reflection of differences in the rate and timing of fertility decline.

**Youth labor force**

The rapid increase in the participation rate of the youth labor force (aged 15-24), which includes everyone in this age group either in work or actively seeking work, witnessed over recent decades has reached its peak and is now beginning to shrink.

One factor impacting this decline is the shift in the rate of growth of the global population of 15-24-year-olds, which is expected to remain at around 4.4 percent during 2010-2030, a much lower rate than the overall growth rate in the working-age population. While the relevant youth populations may still account for a disproportionately large share of the overall workforce, their share is no longer growing in most regions and will decline precipitously in some regions during the coming few decades. For example, in Europe the youth population will decrease by 13.6 percent between 2010 and 2030, while in Asia—previously known for the rapid growth in the number of young workers—it will fall by 6.7 percent. Africa, with a projected 57 percent increase for young workers, is the exception to this global trend.

Furthermore, the youth labor force participation rate has been falling as more young people leave the workforce to continue their education or because they are discouraged from looking for work after long-term unemployment. This decline not only aggravates the skills gap found in today’s markets but is also a huge cost to society, both in forgone earnings and in lower earnings in the future. Studies have shown that workers who are unemployed as young adults and do not continue their education earn lower wages for many years following the unemployment period owing to a lack of work experience and missed opportunities to develop skills. According to a report by Young Invincibles, a

---


31 World Bank data, latest year.


young people’s advocacy organization, the youth unemployment crisis is costing American taxpayers US$25 billion annually in the form of lost tax revenue and government benefit payouts.34

Ageing workforce

The mushrooming group of 45-64-year-olds has been driving the overall growth rate of the working-age population from 1990 to 2010 with a 67 percent growth rate. This trend is expected to continue over the 2010-2030 period, with the number of those aged between 45 and 64 predicted to rise by 41.2 percent, fuelled mostly by growth in the developing world (see figure). While this age group is growing slowly in developed regions (North America, Europe), it is the only group growing at all in Europe, albeit at a rate of just 0.7 percent.

The traditional definition of the working-age population, usually defined as those aged 15–64, has been shifting slowly. Across advanced economies, there has been an increase in those of retirement age who opt to remain in the workforce. The Bureau of Labor Statistics in the United States predicts that 35 percent of men aged 65-74 will be in the workforce by 2020, up from 25 percent in 2000.35 This increase in retirement age will doubtless become much more widespread in emerging economies too as their societies continue to age.

As the workforce ages around the world, companies benefit from having more experienced workers. In addition, those older workers who choose to remain in the workforce are likely to be the more highly skilled. According to the US Department of Labor, the decline in the participation rate as a result of age is highest among less-educated workers, mainly because their limited skills leave them with only low-wage options.36 This could make it more lucrative to draw a pension rather than remaining a salaried employee, or the job might be too manual for an older person to continue past a certain age. As employers struggle with talent shortages and skills gaps, many are providing incentives to keep their older workers from retiring. However, retaining older workers also results in an increased healthcare burden on employers.

While a portion of the older population will choose to remain in the workforce past retirement age, it is inevitable that the retired workforce is growing in size. This increases the burden on the current workforce and society in general. For instance, in Japan the old-age dependency ratio—the number of elderly people as a share of those of working age—is predicted to rise to a remarkable 72 percent by 2050 (see figure).

**Gender diversity**

A little over half of the world’s population is composed of women, yet their contribution to economic activity and growth remains below its full potential. Women have become an increasingly well-educated source of talent, outnumbering men in tertiary education at a rate of 108 to 100 in 2012 globally. However, in 2012 only about half of the working-age women were in the labor force (50.5 percent), compared with approximately eight out of every ten working-age men (76.8 percent). The average labor force participation rate masks significant cross-regional differences in levels and trends. The gender gap is especially wide between men and women in the Middle East and North Africa and in South-Asian regions, with 21 percent and 32 percent participation rates for women respectively in 2012. Meanwhile, in Latin America and the Caribbean the participation rate for women rose from 40.3 percent to 53.5 percent between 1990 and 2010.

But even when women are present in the workforce, they are still disproportionately represented in low-skilled fields and vulnerable employment opportunities, which has contributed to a significant gender wage differential. This is particularly true in societies with traditional views of gender roles, where women account for a much larger share of the unpaid labor force, of the informal sector (jobs that are often low-paid, temporary and exempt from taxes and other government regulations), and of the poor. Over 60 percent of female workers in the developing world are in the informal sector. For example, 84 percent of women in Sub-Saharan Africa and 58 percent in Latin America work in the informal sector. Meanwhile, women in developed economies continue to be underrepresented in senior positions: over the period 2008-2012 the share of females among CEOs in Standard & Poor’s 500 companies remained at 4 percent. However, with women’s increased educational levels, their participation in highly skilled positions is expected to increase. The

---

37 World Bank, latest data.
38 Ibid.
39 Ibid.
wage differential should therefore continue the downward slide that has become apparent in many developed countries in recent years.

Over the next two decades an estimated 1 billion women will enter the global workforce, with an expected impact on the global economy at least as significant as that of the billion-plus populations in both China and India. Of these women, approximately 94 percent will be in emerging and developing economies. In developed economies, the increasing number of women in the workforce is expected to mitigate the impact of a shrinking workforce and boost growth. In November 2014 the leaders of the G20 group of major economies pledged to work towards a more gender-balanced economy by reducing the gap between female and male participation in the workforce by 25 percent over the next ten years. This could bring an additional 100 million women into the workforce. An OECD study recently estimated that closing the labor force gender gap could yield a potential gain of 12 percent to the size of the total economy by 2030 on average across OECD countries.

In its latest “Womenomics” report for Japan, the Goldman Sachs Group reported that closing the gender employment gap could boost Japan’s GDP by 13 percent. “Japan can no longer afford not to leverage half its population,” Goldman Sachs Chief Japan Strategist Kathy Matsui writes. The Japanese Prime Minister, Shinzo Abe, expects to see women at the center of his growth strategy for the country. By 2020 he wants women to occupy 30 percent of all “leadership” positions, which would include members of parliament, heads of local government and corporate executives. Given that less than 40 percent of Japanese women return to work after having their first baby, Mr. Abe has launched an ambitious plan to create 400,000 new day-care spaces nationwide by 2018. Additionally, the government is in the process of overhauling tax breaks for taxpayers with spouses to encourage more women to take up jobs.

Size of the workforce

The ageing of the working population has tempered the growth rate of the global workforce, but the increased participation of women in the workforce has the potential to greatly swell the size of the global workforce. However, the number of women anticipated to join the workforce over the next few decades will not be great enough to maintain the exponential growth recorded between 1990 and 2010, when the global working-age population grew by 40

---

43 The Independent, “G20 summit: World’s leaders promise to get 100 million more women into work”, November 17th 2014. (http://www.independent.co.uk/news/business/news/g20-summit-worlds-leaders-promise-to-get-100-million-more-women-into-work-9864274.html)
47 Washington Post, “Japanese leader Abe wants more women to work. So he’s got big plans for day care”, August 1st 2014. (http://www.washingtonpost.com/world/asia_pacific/japanese-leader-abe-wants-more-women-to-work-so-hes-got-big-plans-for-day-care/2014/08/01/8ddc84f5-c4b2-4e39-a1e0-125eaa57309b_story.html)
percent, or 1.3 billion, to 4.5 billion people. Approximately 95 percent of that growth occurred in less developed regions, mainly in Africa, Asia and the Middle East.

Nevertheless, between 2010 and 2030 the global working-age population is expected to grow by only 20 percent, or 900 million people. In more developed regions the working-age population is expected to shrink by 5 percent over 2010-2030, mainly owing to declines in the working-age population across Europe, China and Japan. For the first time, more workers retired in Europe in 2010 than joined the workforce. While this labor gap, at 200,000, is still relatively manageable, it is expected to grow to 8.3 million by 2030. Meanwhile, in less developed regions the working-age population is projected to grow by almost 1 billion people, with 70 percent of them spread between Sub-Saharan Africa and South-Central Asia. Improved health outcomes (the slowing of HIV infection rates and lower infant mortality rates) and relatively high fertility rates are expected to fuel this growth.

One additional aspect that indirectly impacts the size of the workforce is the state of the local informal sector. Defined as those whose employment lacks basic social and legal rights, the informal sector is most prevalent in the emerging world, ranging from 30 percent of those in non-agricultural employment in Turkey to 75 percent of those in Bolivia. China and India represent the polar opposites, making up 32 and 83 percent of informal employment, respectively. And while it is inconclusive whether the global informal economy is currently on a rising or declining trajectory, it does play a role in the total labor supply available for formal employment. In the case of South Africa, while the informal sector accounted for a similar share of GDP (5 percent) from 2001 to 2013, employment fell from 2.3 million to 1.5 million, indicating growth in the number of formal-sector workers during that period.

**Education and skills**

Globally, the workforce is becoming more “skilled” and specialized. During the period 1990-2010 the gross enrollment ratio in tertiary education over the world more than doubled from 13.6 percent to 29.2 percent. However, disparities between countries remain large. In 2010 the gross enrollment ratio in tertiary education was 73.5 percent in developed countries and a mere 22.4 percent in developing countries. While all regions saw an increase in enrollment, a large portion of the global growth has been fuelled by Asia, Latin America and North Africa. Most notably, eastern Asia grew by 470 percent over 1990-2010 from an average enrollment ratio of 4.5 percent to 25.5 percent.

Variations across regions do not only exist with regard to educational attainment, but also with regard to the quality of education and skills attained. Even among the most educated workforces, large disparities exist. The OECD

---

49 Ernst & Young, Tracking global trends: how six key developments are shaping the business world, 2010. (www.ey.com/globaltrends)
51 Ibid.
53 UNESCO Institute for Statistics.
launched a survey in 2012, the Program for the International Assessment of Adult Competencies (PIAAC), across 22 OECD countries to measure levels of literacy, numeracy (or mathematical literacy) and problem-solving among adults in the workplace. The study found that almost one-third of adults in Italy, Spain and the US performed poorly in numeracy, compared with only one in eight in Finland and the Czech Republic and less than one in ten in Japan. Countries with greater socio-economic inequality overall fared more poorly than those with more egalitarian societies, such as the Nordic countries. South Korea’s older workers ranked poorly, but the younger workers massively outperformed them, which suggests that rigorous school reforms can yield relatively quick results.

One consequence of the increasingly skilled workforces in developing markets is the emergence of the new profile of a worker who seeks higher wages to compensate for high skills. For instance, wages in China’s manufacturing sector have risen by 71 percent since 2008, according to the National Bureau of Statistics. Improvements in labor productivity—which the World Bank estimates is growing at about 8.3 percent a year—have offset some but not all of the wage growth. Rising labor costs in China have eroded its manufacturing cost advantage. In fact, a new study by AlixPartners, a consulting firm, estimates that by 2015 the cost of outsourcing manufacturing to China will be equal to the cost of manufacturing in the United States.

The rise of skilled workforces is impacting the industry make-up of many emerging economies. In particular, China is succeeding in moving into high-value-added, high-technology manufacturing and is competing with Western companies for high-tech products and research and development (R&D) investment. According to a 2013 study, the US may lose its title as the world’s leader in R&D spending by 2023. If the federal government’s R&D spending continues to decline or remains flat, China could overtake the US in approximately ten years.

**Talent flow**

The number of university-educated workers in the developing world has increased significantly in recent decades. By 2010 the number of people with higher education (tertiary) degrees in non-OECD G20 countries was roughly similar to the number in developed OECD countries. A 2005 McKinsey Institute report, *The Emerging Global Labor Market*, concluded: “India alone has nearly as many young professional engineers as the United States, and China has more than twice as many. Russia has almost ten times as many finance and accounting professionals as Germany.”

---


58 OECD, Education Indicators in Focus, May 2012. (http://www.oecd.org/edu/50495363.pdf)
Many of these well-educated individuals have been seeking better-paid opportunities abroad (see figure). The number of immigrants in OECD countries who had been educated to tertiary level increased by 70 percent from 2000 to 2010 and reached 27 million overall.\(^{59}\) One-fifth of these immigrants emanate from India, China and the Philippines.

In countries and economic sectors where the demand for highly skilled workers outweighs the supply, cross-border migration is likely to keep growing in the coming years, although it slowed somewhat in the aftermath of the global financial crisis. The growth in international migrant stock, which accelerated to about 4.6 million people annually in the first decade of the century (up from 2 million a year in the 1990s), has fallen to about 3.6 million per year since 2010.\(^ {60}\)

Additionally, highly skilled migrant workers have started returning to their home countries. New legal restrictions, recession and higher unemployment in many developed countries, in addition to improved economic opportunities in countries of origin, are encouraging reverse migration. For example, migration flows between the United States and Mexico have reached equilibrium. In the five-year period from 2005 to 2010, 1.4 million people migrated from Mexico to the United States, down from 3 million in the previous five-year period. Approximately the same number, 1.4 million, moved from the United States to Mexico, up from 670,000 in 1995-2000.\(^ {61}\)

In Spain, the proportion of international migrants within the country as a whole rose massively in just two decades, from 2 percent in 1990 to 14 percent in 2010.\(^ {62}\) During this period Spain received 5.5 million immigrants, second only to the US. Of these, over 1.5 million came from Latin American countries, 2 million from EU states (especially from Eastern Europe) and 750,000 from Morocco.\(^ {63}\) Many factors, including Spain’s geographical proximity to North Africa, the eastward expansion of the EU (thereby allowing an influx of migrants from Eastern Europe), the large size of Spain’s underground economy and the strength of the agricultural and construction sectors explain this large increase in the immigrant population. For example, the number of Romanians coming to Spain rose from 31,600 in 2001 to 798,000 in 2011. However, growing mass unemployment and the economic turmoil during the financial crisis and recession have resulted in emigrants outnumbering immigrants in 2012.\(^ {64}\) This trend of migrants returning to their home countries has coincided with the increase of skilled workers moving to foreign countries for temporary work.

\(^{60}\) Ibid.
\(^{62}\) World Bank, latest data.
\(^{63}\) Instituto Nacional de Estadística, “La población empadronada en España supera los 46,6 millones de personas a 1 de enero de 2009”. (http://www.ine.es/prensa/np551.pdf)
Case study: The rise of cities as global talent clusters

Today, cities continue to evolve as centers of innovation and engines of economic growth. Many cities, having become attractive destinations for high-skilled global workers, use talent as a competitive advantage. While these cities are hubs and continue to attract many businesses, they have a lot more to offer to the modern expatriate who seeks, in addition to good employment prospects, a high quality of life, a family-friendly environment, cultural diversity and access to activities and attractions.

Hong Kong:

Hong Kong is considered a great urban success story. Originally a fishing village, it became a British colony in 1842. The dynamism created by the British laissez-faire economic policies and the Chinese entrepreneurial spirit transformed Hong Kong into one of the liveliest and fastest-growing cities. Its thriving economy and cultural diversity have over the years turned Hong Kong into a global hub for talent, housing one of the most competitive workforces in Asia. Already one of the major finance and transport hubs in Asia, Hong Kong has been building on previous sectors to attract new ones, most recently high-tech. Today Hong Kong is quickly becoming one of Asia’s technology hubs, with some of China’s leading Internet giants, including Tencent and Alibaba (until recently) having chosen to list in Hong Kong rather than in New York. Hong Kong, with its twin Chinese and Western identities, has always been an attractive proposition for expats, especially those from English-speaking countries like the US, England, Canada and Australia. Since the 1997 handover to China the number of Western expats has fallen, mainly owing to tighter work visa regulations. According to government figures, in 2012 foreign-born residents comprised 8% of the population. In 2013 Hong Kong ranked 4th globally in the EIU City Competitiveness Index, which measures the demonstrated ability of a city to attract capital, businesses, talent and visitors. Furthermore, a 2012 version of the EIU Liveability Index, adjusted for spatial characteristics (green spaces, sprawl, natural assets, cultural assets, connectivity, isolation and pollution), ranked Hong Kong as the best city to live in among 70 cities surveyed.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Spatial Adjusted EIU Liveability Index 2012</th>
<th>EIU Liveability Index 2012</th>
<th>EIU Liveability Index 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hong Kong</td>
<td>Melbourne</td>
<td>Melbourne</td>
</tr>
<tr>
<td>2</td>
<td>Amsterdam</td>
<td>Vienna</td>
<td>Vienna</td>
</tr>
<tr>
<td>3</td>
<td>Osaka</td>
<td>Vancouver</td>
<td>Vancouver</td>
</tr>
<tr>
<td>4</td>
<td>Paris</td>
<td>Toronto</td>
<td>Toronto</td>
</tr>
<tr>
<td>5</td>
<td>Sydney</td>
<td>Calgary</td>
<td>Calgary</td>
</tr>
<tr>
<td>6</td>
<td>Stockholm</td>
<td>Adelaide</td>
<td>Adelaide</td>
</tr>
<tr>
<td>7</td>
<td>Berlin</td>
<td>Sydney</td>
<td>Sydney</td>
</tr>
<tr>
<td>8</td>
<td>Toronto</td>
<td>Helsinki</td>
<td>Helsinki</td>
</tr>
<tr>
<td>9</td>
<td>Munich</td>
<td>Perth</td>
<td>Perth</td>
</tr>
<tr>
<td>10</td>
<td>Tokyo</td>
<td>Auckland</td>
<td>Auckland</td>
</tr>
</tbody>
</table>

Toronto:

Toronto is globally renowned as a city of unmatched diversity. It has one of the highest percentages (46 percent) of constant foreign-born populations among global cities, second only to Miami, Florida. However, unlike Miami, no single culture or nationality dominates the immigrant population. With strongly performing economic sectors, Toronto is Canada’s commercial capital and a global leader in financial services. Faced with an ageing population, the local government has long viewed immigrants as the main source of labor force
Temporary workers

Temporary workers, or employees who are contracted to work for a short period of time either directly through a company or through a recruitment agency, include temporary migration workers—workers who move to a host country temporarily—and temporary workers who either work remotely or are hired locally for a short term to meet immediate demand or to provide specialization.

Temporary migration schemes have traditionally been associated with low-skilled or seasonal work. However, many developed economies, such as those in the EU, where shortages of workers with the right training and skills are becoming a drag on business expansion and national GDP growth, are increasingly trying to increase the temporary migration of skilled workers. Difficulties may arise in the temporary migration of highly skilled workers owing to the unwillingness of host countries and companies to part with skilled talent once such individuals are hired, and because of the unattractiveness of temporary work to the highly skilled worker who might be able to gain permanent employment elsewhere. As a result, countries and companies that face immediate skills needs are eager to attract temporary skilled workers abroad.

Theoretically, the migration of temporary workers benefits the host country or company, the individual migrant, and the country of origin. The host country or company fills short-term labor shortages and is able to respond to any growth or decline in labor shortages. Migrant temporary workers gain skills that increase their employability in their country of origin or somewhere else, and the country of origin benefits from the new skills of returning migrants and potentially from remittances. There are questions, however, about whether or not employers, especially those of low-skilled workers, invest resources to improve a temporary worker’s personal development and career trajectory.

This question of investment in personal development also applies to temporary workers, including contract employees and paid interns, who are either hired remotely or locally but are not considered migrant temporary workers. A temporary job often means reduced access to benefits such as paid sick leave, unemployment insurance and retirement pension, as well as higher insecurity owing to reduced protection in the event of a termination of the employment relationship. Coupled with these disadvantages, temporary employees typically receive lower pay and have fewer prospects of promotion. Finally, the access of temporary workers to training is generally reduced or non-existent.

---


67 Ibid.
ent. Nonetheless, temporary agency employment has doubled over the past decade in most developed economies.

Clearly, lower overhead costs, temporary access to specialized skills and the chance to address short-term labor demand make temporary employment attractive to organizations. Flexible and temporary employment enables firms to address pressures for lower costs. Temporary workers allow organizations to remain competitive because such workers provide numerical flexibility without continuing costs. Additionally, companies use temporary and flexible workforces to withstand uncertainty and risk in international markets. Recruiting temporary workers as an initial risk reduction is a tactic used primarily by born-global firms, or organizations that from their inception seek to derive competitive advantage from sourcing and selling in many countries. However, there are inherent risks in depending on temporary workers both in international markets and within the country of origin.

As their presence in new countries grows, international firms need to foster human capital in each global location where they are active. The knowledge derived from temporary workers in international locations must be codified and internalized, and ultimately the best way to retain crucial location-based knowledge is through the stability of a permanent workforce. Thus, the transfer of knowledge from temporary employees to permanent employees becomes a key step in the development of international organizations in global locations as dependence on temporary workers decreases with operational success. If this transfer of knowledge is incomplete or unsuccessful, companies will likely suffer.

Organizations foster a corporate culture that most employees embrace. The corporate culture is a fundamental element which ensures that the employees of an organization remain engaged and connected. George P Huber, in his book *The Necessary Nature of Future Firms: Attributes of Survivors in a Changing World*, suggests that the use of temporary workers, especially those who work remotely, weakens a firm’s culture. Both their temporary status and their potential remoteness tend to result in workers absorbing very few of the organization’s beliefs and values, which are more strongly adhered to by permanent workers. Temporary workers are more likely to be “influenced by forces and entities outside the firm than are the beliefs of permanent employees”. The importance of a corporate culture that is able to integrate the diversities of the global workforce is discussed in the next section.

## Remote workers

Remote work has increased exponentially over the last two decades. The proportion of employees in the United States who work primarily from home rose from 0.75 percent in 1980 to 2.4 percent in 2010. Additionally, the increased share of managers, especially those in developed countries, who work from home during normal working hours signals that remote working has now become part of the mainstream work culture: in the US, the UK and Germany almost 50 percent of managers are allowed to work remotely. Additionally, the share of managers who work at home in many developing countries has risen to between 10 and 20 percent, indicating that the trend of remote working is a global phenomenon. Rising traffic congestion, coupled with increased cellphone access and the growth of laptop use, is driving up remote working among the global workforce, especially in emerging economies.

Companies generally support remote work, as it decreases overhead costs by reducing the office space needed and by increasing hiring options. Talent or specialization that might not be available locally can be hired re-
motely, and the cost of moving talent decreases. However, the growth of remote work among employees has raised the issue of how to balance freedom, engagement levels and connectivity among workers. Though technology has allayed many fears about connectivity, loss of oversight and diminished engagement levels among employees are also a concern.75

The most significant benefit for remote employees is an improved work-life balance, which corresponds strongly with increased job satisfaction. Of course, working at home is a popular option among employees with young children; however, in their book *Making Telework Work*, Offstein and Morwick76 found that workers nearing retirement also prefer to work remotely in order to spend more time with their families and to have a more flexible schedule.

Team workers who work remotely, or who have managers who work remotely, do not have constant oversight, giving them autonomy and responsibility for their processes and work. A Gallup poll found that the freedom that comes from working remotely has a positive outcome on engagement levels; however, working remotely too frequently actually diminishes engagement levels (see chart).77 Finally, without effective communication that caters to a remote employee’s preferred method of communication and connectivity, both employer and employee satisfaction is unlikely to be met. As organizations employ an increasingly global workforce, establishing individual preferences and means of interaction is crucial for the success and productivity of remote workers.

---


CULTURAL DIFFERENCES: INEVITABILITY IN A GLOBAL ECONOMY

“Seeing through the lens of the folks in the regions is difficult. What does it look and feel like to be elsewhere? How do they solve problems?”

Nicholas Garbis, Leader, Workforce Intelligence COE at GE Power & Water

While the previous section outlines the principal characteristics of the current workforce from a demographic, educational and work environment perspective, it does not touch upon one additional, equally important issue: culture. Encompassing a wide spectrum of behavioral traits—from how individuals greet each other to the principles they hold dear—culture has a tremendous impact on employee engagement and cross-organizational interaction. When the concept of corporate culture is overlaid on top of this diverse environment, the level of complexity intensifies, so much so that business leaders have identified the lack of interest to assimilate into organizational values as the area in need of greatest change for future HR strategies.78

Culture defined

There is no agreed definition of culture as used in the workforce discussion. Broadly speaking, the Oxford English Dictionary defines culture as “the ideas, customs, and social behavior of a particular people or society”. By its nature, culture refers to, and in many ways defines, a “particular” group, and in so doing makes that group distinct from others. It thus separates people from, as much as it creates, a community. That community need not be a country: it can be ethnic, religious or even professional or corporate.

An individual’s ethnicity and religious affiliation are the most commonly recognized cultural factors. While the former is too challenging to categorize on a global scale (and even increasingly difficult on a local level), the latter has much clearer parameters. Indeed, nearly 70 percent of the global population is represented within the top three religions, Christianity, Hinduism and Islam.79

Even the concept of dialect can be considered as community-defining, given the underlying commonality in communication. Through the language lens, the existing diversity is tremendous, with the top-five spoken first languages (Mandarin, Spanish, English, Hindi, Arabic) covering just one-third of the global population.80 Additionally, the use of local idioms and accent variations implies significant differences across countries (Arabic in Egypt and Algeria) as well as within national borders (Portuguese in the south vs. the north-east of Brazil). Naturally, these communication differences can be minimized by a common language, with English being the most widespread, used by upwards of 1.75 billion people.81 However, even this has its limitations given the wide range of fluency: while 57 percent of

---

78 The Economist Intelligence Unit, Values-based diversity report, 2014.
80 Ethnologue, Statistical Summaries. (http://www.ethnologue.com/statistics/size)
English-speakers in Asia have a moderate to very high proficiency, only 14 percent in Latin America achieve that same level.\footnote{82 EF English Proficiency Index, Education First, 2014.}

**Culture complexities**

At the same time, while the community concept is a key distinction for societal culture, there are other critical layers to take into account when trying to understand its impact on the global workforce:

- **Culture is multifaceted.** Customs and ideas are the most readily visible manifestations, but underlying these are ideas, often religious or philosophical ones, broadly shared within a group that can have a profound effect on people’s self-understanding, and even identity, as well as on how they act. The ability of foreign executives to do the latter properly may be essential for a negotiation, but it does not mean they understand the potentially relevant implications of the former.

- **Culture change tends to be slow but evolving.** Data from the World Values Survey, a global research project which covers 82 countries, have shown that cultural values show substantial resilience over time.\footnote{83 World Values Survey, Findings and Insights. (http://www.worldvaluessurvey.org/WVSContents.jsp). See also Inglehart, Ronald and Wayne E Baker, “Modernization, Cultural Change, and the Persistence of Traditional Values”, American Sociological Review, 2000; Schwartz, Shalom, Cultural Value Orientations, 2008.} It would be hard, however, to imagine a major national one, for example, that has not seen substantial evolution on any number of fronts over the last century. Quantum shifts can even occur, such as an apparent increase in the cultural affinity with individualism that took place rapidly in Eastern Europe after the fall of the communist regimes.\footnote{84 Taras, Vas et al., “Improving national cultural indices using a longitudinal meta-analysis of Hofstede’s dimensions”, Journal of World Business, 2012.}

- **Culture is borderless.** A meta-analysis of intra-national compared with international differences a decade ago found, to the surprise of its authors, greater variety within than between countries.\footnote{85 Gerhart, Barry and Meiyu Fang, “National culture and human resource management: assumptions and evidence”, International Journal of HRM, 2005.} One important reason for this variety is the notion of agency—that people can and do make independent choices. Another is that culture is not invariably exclusive. Instead, people are simultaneously part of overlapping, sometimes even apparently contradictory, cultures through circumstance and choice.

Corporate culture is another matter. This comprises the values, beliefs and practices of the company\footnote{86 KPMG, Post Merger People Integration, 2011. (http://www.kpmg.com/IN/en/IssuesAndInsights/ArticlesPublications/Documents/Post%20Merger%20People%20Integration.pdf)} and is created either by design or is naturally based on the personalities of executives. Employees learn the culture through training and by observation. Corporate culture may include practices such as integrity, frugality, and giving back to the community. Chevron, for example, requires all employees globally to adopt its culture of ethics, safety, and personal leadership.\footnote{87 Interview with Jim Shultz, Advisor to the Human Resources Vice President, Chevron Corporation.} Organizational values also typically reflect unspoken, but understood, social norms shaped by diverse influences such as internal reward structures, how senior officials act in practice, and the national culture surrounding a given operation.

\[\intertext{Organizations that ignore the issues of culture and cultural integration will likely face difficulties attracting, retain-}\]
Engaging and motivating the best workers, or outright failure. Lack of initiatives to properly integrate corporate culture is a contributor to the fact that 70 percent of M&As fail and more than 50 percent destroy value. Specifically, 30 percent of integration failures are attributed to culture. Integrating workers from multiple societal environments into the organizational values requires not only learning the critical differences but also finding a balance between some parts of the corporate culture that should not change, while other parts may need to be reconsidered and adapted to the cultures of the local workforce.

Although clearly a potentially powerful shaper—and predictor—of thoughts and actions, ironically one danger with culture is attributing too much to it. Indeed, it is also often an all too convenient excuse: a recent study found that more experienced executives tend to credit their own skills for success in cross-border M&As, but to blame failures on cultural differences.

**Culture: distance and friction**

From a purely academic perspective, sociologists and business researchers have been struggling to tease out and quantify key cultural averages for decades. The first major contributor to this field was the Dutch sociologist Geert Hofstede. Drawing on a survey of over 100,000 IBM employees in 40 countries in the late 1960s and early 1970s, in 1980 he posited the existence of four key dimensions where national cultures diverge, all of which are relevant for business: power distance, his term for the extent to which leadership is hierarchical or flat; the degree to which individual or collective goals are prized; the extent to which members of the culture seek to avoid uncertainty; and the degree to which attitudes typically associated with masculine or feminine viewpoints predominate. His work provided quantitative results for all of these measures.

A natural corollary, first advanced by Bruce Kogut and Harbir Singh, was cultural distance: a measure of the difference between national scores on a composite index made up of Hofstede’s dimension scores. Measures of distance can help in academic analysis of cultural effects on business activity such as FDI success or failure. They may also be used actively to help companies understand the likely gaps that will need bridging in international differences. HR executives from a country with little power distance, for example, would need to change management styles to be successful in a country where this measure is higher.

The concepts of cultural dimensions and cultural distance remain popular today, but they have several problems, especially when applied simplistically. The first, as mentioned above, is the danger of providing an at best incomplete understanding of complex situations. Different regional and national cultures, overlapping types of cultures and individual choices get lost in this sort of analysis. Also, the underlying studies used to calculate cultural dimen-

---

93 For a recent example of this approach, with its own set of cultural dimensions, see Erin Meyer, “The Culture Map: Breaking Through the Invisible Boundaries of Global Business”, *Public Affairs*, May 2014.
sions can sometimes be old because the necessary survey work tends to be expensive. This creates the danger of missing out for a few years on any quantum shifts that may have occurred.

Another practical issue is determining the relevant cultural dimensions to measure. There has been substantial work, usually based on comprehensive surveys, which have come up with sometimes quite different answers. One of the most prominent of these is that of the Israeli sociologist Shalom Schwartz, whose seven dimensions have some overlap with Hofstede’s, although they are divided up in different ways. He also adds harmony with nature and the world.94 More recently, the Global Leadership and Organizational Behavior Effectiveness (GLOBE) group has derived nine dimensions, including some of Hofstede’s, such as power distance and uncertainty avoidance, but adding elements such as gender egalitarianism and performance orientation, from its survey work.95 Meanwhile, Hofstede has added two further dimensions to his own framework as a result of further research: one, now called pragmatism but earlier called, more descriptively, long-term/short-term orientation, and the other relating to the degree to which people control their self-indulgence.

In some ways, the whole enterprise of cultural dimensions relies on the assumption that with enough research it will be possible to find a set of measurable, identifiable dimensions that can adequately encapsulate cultural differences. However, success in such a complex field is not a given, and the lure of having something readily quantifiable may be so appealing that weaknesses in the approach are overlooked. In the meantime, the results of divergence in key dimensions are far from trivial: two different approaches to creating a cultural map—one based on Hofstede’s rankings of uncertainty avoidance and power distance; the other based on two key variables found by another research effort, the World Values Survey, which uses traditional vs. secular thinking and survival vs. self-expression values—interpret the world in sometimes similar but sometimes very different ways.

More recently, rather than relying purely on abstract quantitative measures, Oded Shenkar, a sociologist and professor of business management, has argued for the need to move away from the idea of cultural distance to “cultural friction”. Rather than dealing in pre-existing differences between presumed cultural poles in a way which tends to avoid consideration of the context of intercultural contact—such as different power levels within the relationship—friction focuses on the interaction, in situation-specific circumstances, of actors from different cultures. In some cases, the result may be that culture plays no role at all, and in others the underlying assumptions and values may lead to results inimical to the goal of one or both parties. Proponents of this metaphor argue that certain management actions can reduce or increase friction.96 The extent to which friction will replace distance as the dominant way to understand cultural interaction remains to be seen. It has the strength of avoiding a sometimes almost mathematically deterministic view of cultural differences, but its close focus on specific conditions means that it is less likely to yield straightforward advice on where problems will occur and how they are best addressed.

### Cultural issues in the workplace

While the true impact of cultural differences in the workplace is challenging to measure, it is clear that the drivers of the global workforce will and can lead to a breakdown in corporate homogeneity. More importantly, this will only intensify with time as peers, subordinates and bosses are increasingly likely to be based in, or at least come from, another country. As Nicholas Garbis of General Electric, which has half of its assets outside of its home base in the United States, explains: “It’s part of working [at GE] that you have contacts and experience with people from around the globe.” GE is far from alone. A 2010 survey of randomly selected employees at multinational corporations found

that 64 percent were involved in a virtual work team, and this group reported that on average 52 percent of team members were based outside the company’s home country.97

The multicultural environment facing global and local employers alike manifests itself on a number of different levels. At a very basic level, culturally appropriate communication and non-verbal business etiquette are essential to success in running international teams or engaging in negotiations with foreign firms.98 The benefits and necessity of being polite may seem obvious, but it also requires knowing what an interlocutor thinks is polite: indeed, no discussion of culture and business would be complete without a passing reference to the need to receive Chinese and Japanese business cards in a formal, almost ritualistic way.

Additionally, worker norms and expectations in the workplace can vary greatly, given the likelihood of having people of very different cultural backgrounds working side by side. Religion, for example, frequently has a profound impact on personal identity. In Britain, an average company employing 200 people is statistically likely to have, in addition to a few dozen atheists and practicing Christians, at least one observant Muslim, Sikh, Buddhist, and Jew.99 This is not an inevitable recipe for conflict, but issues of accommodation of differences can sometimes range from practical matters of dress requirements and leave for diverse holy days to potentially larger ones such as distinct approaches to moral questions. Companies are not necessarily very good at this challenge: in the United States—a country with decades of exposure to workforce diversity—just under half of non-Christians and of evangelical Christians, as well as 40 percent of atheists, reported in a 2013 survey experiencing or witnessing religious non-accommodation at work. The problem is exacerbated as diversity among a company’s employees increases.100

The difficulties compound with more intensive interaction. Many cross-border M&A deals fail on a cultural level, with significant levels of employee loss or dissatisfaction. This cultural integration failure does not always lead to disaster by other measures, such as share value, but it can sometimes bring about huge failures. Over the decades, for example, the automotive industry alone has seen major divorces in once promising links—such as between Daimler and Chrysler, Volvo and Renault and SAIC and Ssang Yong—where any number of cultural differences, ranging from mistrust between people of different nationalities to distinct workforce practices, played an important role. Literature reviews suggest that the tendency of purchasing firms to exercise stronger central control, which feels like cultural imperialism to those at the receiving end, exacerbates cultural problems.101

Lastly, studies show that each culture exhibits unique behavior that must be considered when it comes to organizational leadership and employee development. For example, Indian workers tend to appreciate a paternalistic style of leadership, respecting their superiors’ skills and expecting attention, direction, top-down communication, and approachability. Japanese workers, on the other hand, align more quickly with company objectives and are loyal, but are less satisfied individually.102 In this same light, having identical reward systems worldwide can be ineffective, as the factors most likely to produce employee retention differ markedly by geography. In most of the world, for example, career development opportunities are the leading magnet for top talent, but in Germany it is the ability of corporate leadership to inspire. The latter is much less important to Mexicans, who place it lower than stress—a factor which is not a primary concern in any other leading market (see chart).103

Given the difficulties involved, it can be tempting for HR functions, or corporate leaders in general, to ignore cultural differences.
al issues or to seek an unthinking, least common-denominator approach to differences. This arises from two misperceptions: that culture can be confined among reasonable people to external manifestations rather than something deeper that shapes many individuals’ understanding of important aspects of life; and that these differences are not—or should not be—relevant to an enterprise focused on profit.

Matters become even more complex when corporate values are incorporated into the cultural equation. Teaching and embedding a common organizational culture is widely viewed as a critical success factor, particularly for multinational firms. Mara Swan, Vice President of Global Strategy and Talent at ManpowerGroup, a multinational HR consulting firm, notes: “Having a common purpose and values is what really drives a global organization.” However, statements of supposedly common business values are also potentially far less universal than thought: what is considered “ethical” or “safe” can vary widely between countries, and even supposedly neutral codes of conduct can be misunderstood and cause friction within parts of an organization based amid different national cultures.104 One study showed that even the understanding of the meaning of common management goals and terminology, such as “shareholder value”, could vary by country owing to different institutional, political, and cultural contexts.105

Culture, then, matters too much and impacts too many facets of business for companies to ignore. The concept, however, is a diffuse one and difficult to make actionable. While McDonald’s Corporation chose to have its global franchises run by locals because they innately understand their own culture and thus know how to manage simple but critical issues (for example, McDonald’s workers in Saudi Arabia just know not to seat single men together with unrelated families),106 the challenges specific to each firm are more nuanced and require mostly customized approaches. In this sense, understanding how culture might affect a company and the implications for talent management requires some consideration of what the word does, and does not, mean.

### Cultural diversity – a liability, an asset, or both?

Metaphors such as cultural distance and cultural friction point toward the negative side of cultural differences. Indeed, much of the literature frames the topic as a series of communication, etiquette or other, more serious problems that must be overcome. That tendency is understandable: as noted earlier, cultural differences obviously have...

---

104 Barmeyer, Christoph and Eric Davoine, “The intercultural challenges in the transfer of codes of conducts from the USA to Europe”, in H Primecz et al., Cross-Cultural Management In Practice. Culture and Negotiated Meanings, 2011.
the potential not only to complicate talent management, but also to impede negotiations and undermine the success of M&A activity.

At the same time, a culturally diverse organization with a similar workforce has a range of potential advantages over its more monolithic peers. Those most often cited can be divided into two groups: ones where the cultural differences are inevitable but almost incidental to the benefit obtained, and ones where the diversity is the cause of the benefit. Access to talent, a perennial problem for firms, falls in the former category. Seeking talent worldwide provides a broader recruitment pool than a restrictive, domestic focus. Thus, a benefit of openness to cultural diversity is that a company has more choices for, say, an accountant: it can employ an Arab or an Argentinian, and that person’s culture is largely incidental as long as he or she is competent. Similarly, global sourcing and markets provide better opportunities for purchasing and sales than purely national ones.

The more relevant benefit for this discussion, however, is what diverse cultural backgrounds within the workforce can
bring to a firm. Benefits commonly cited include in-depth local knowledge of different markets and the increased probability of successful operations in a range of locations, as well as an appreciation of different ways of doing things, which is likely to lead to more creativity and innovation. This range of knowledge and experience should also make companies more adaptable to change.

While existing research is unclear about the benefits of cultural differences, one particularly relevant and rich area of study has been the impact of diversity policies, especially those relevant to ethnic and racial diversity, in the United States. While any number of papers show some positive impact—Orlando Richard’s work from 2000 and 2003 indicating that racial diversity can improve productivity and returns on equity\(^\text{107}\) has been particularly influential—a substantial literature review found in 2009 that, overall, research in this area shows either no impact from diversity or a slightly negative one. Much of this work, including Richard’s, indicates that the matter requires nuance to understand: diversity, when well-managed, seems beneficial in certain circumstances, but can be an apparent impediment in others.\(^\text{108}\)

Less research is available on the effect of international cultural diversity in companies, but what exists points in a similar direction. A large meta-analysis of the effect of cultural diversity on both single-country and international teams found that for both the net benefits and losses from having a wider range of backgrounds largely cancelled each other out. “Cultural diversity leads to process losses through task conflict and decreased social integration, but to process gains through increased creativity and satisfaction.”\(^\text{109}\)

In short, the impact of cultural diversity on firms depends, as having a variety of cultural attributes and the inevitable diversity it entails brings both gains and losses. Maximizing the former and minimizing the latter appears to be, at least partially, a result of the environment that the company creates for individuals. A recent study found that, while an absence of cultural tensions did not add to a company’s creative output, their existence had a negative effect on the ability both of those directly affected by clashes and of other employees to innovatively combine ideas from multiple cultures.\(^\text{110}\) Rather than a problem, resources—including investment of time and money—are required to fully exploit culture’s potential as an asset. Culture can cause damage if it is not properly overseen and managed; the obvious challenge then becomes how best to manage it.


CORPORATE SOCIAL RESPONSIBILITY AND GLOBAL WORKFORCE DYNAMICS

“Friends, together, we can achieve a new phase of globalization—one that creates inclusive and sustainable markets, builds development and enhances international cooperation. We each have a responsibility in moving our agenda forward.”

Ban Ki-moon, Secretary-General of the United Nations, Closing Remarks at the UN Global Compact Leaders Summit, Geneva, July 6th 2007

As mentioned earlier as one of the outcomes of globalization, firms operating more and more internationally have become exposed to a higher level of operational risk. Whether as a result of a local presence or through partners, this risk comes in many different forms related to the workplace—illegal labor practices, moral harassment lawsuits and even brand erosion through negative consumer perceptions. Numerous strategies exist to mitigate these risks (or at least minimize their impact), from developing a detailed understanding of the local environment to establishing clear protocols and HR procedures that have been customized to the country’s unique features.

However, increasingly companies and the marketplace are taking a broader view of the proactive engagement with employees and the societies in which they operate at home and abroad. This is where the concept of corporate social responsibility (CSR) has become a critical component of a firm’s international strategy. While this has undoubtedly been deployed as both a risk-mitigating and an opportunity-generating strategy that positively affects the bottom line, CSR has also come to represent a moral obligation of business that is a key component to developing a global and sustainable community.

CSR in the global context

Human rights are the basic rights of people, regardless of their race, sex, religion, political opinion, social status or any other characteristic.\textsuperscript{111} Dan Viederman, CEO of Verité, a Massachusetts-based non-profit that monitors and reports on labor rights abuses around the world, states: “Human rights problems tend to be more prevalent in societies that are poorer and more corrupt. There is a correlation between the overall level of development, income and wealth with labor violations. Labor rights violations are also common among migrant workers, because their foreign status increases their vulnerability.”\textsuperscript{112}

For example, nearly 21 million people are subject to forced labor around the world today. Of these, 17.2 million live in the developing countries of Asia, Africa, and Latin America. Women and girls make up about 55 percent, or 11.4 million, of the world’s forced labor victims.\textsuperscript{113} Additionally, more than 122 goods from 58 countries are produced by slave or forced labor, with migrant workers and indigenous people being especially vulnerable.\textsuperscript{114} Many countries did not pass anti-trafficking laws until after the United Nations passed the UN Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, in 2000. These countries include China, which passed anti-trafficking legislation as late as 2011, Russia in 2008, and Peru in 2007.\textsuperscript{115}


\textsuperscript{112} Interview with Dan Viederman, CEO, Verité.


By definition, CSR is the term for businesses’ obligation to honor and protect human rights, avoid corruption, protect the environment, and support the communities where they operate through philanthropy in the workplace, marketplace, supply chain, community, and public.116 The UN Industrial Development Organization (UNIDO) supports the notion that CSR is “a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders”. Moreover, companies use CSR as a way to achieve a balance of economic, environmental and social imperatives, or “triple-bottom-line approach”, while at the same time addressing the expectations of shareholders and stakeholders.117

The business case for CSR

Although protecting human rights is the primary responsibility of governments, businesses with global workforces recognize that ensuring human and labor rights among their employees—and within their supply chains—makes good business sense. As Dan Viederman explains: “There is agreement right now that individual businesses having effective HR and treating workers well increases productivity, and therefore has positive economic returns.” He adds: “The Western concept of human rights is now broadly adopted at a conceptual level around the world. This has been a leveling force that has helped make sure human rights are at least noted in places where before they would not have emerged in a conversation.”118

In this sense, the concept of CSR has evolved and goes well beyond just good corporate citizenship or charity. Managing the many risks—including those related to the work environment—is at the heart of the CSR business case. The most recognizable risk comes with brand perception, as firms face damage to their reputation as a result of social missteps. Consider upscale apparel-makers that have been criticized for employing sweatshops in third-world countries, the Exxon Valdez oil spill in Alaska, and big pharmaceuticals that tried to block generic AIDS drugs from being sold in South Africa. Even without breaking local laws, companies such as these often do irreparable damage to their reputation.

While most businesses respect human rights and have adopted policies to protect their own operations, gaining an insight into the practices of all the partners in their supply chain is problematic.119 Nike learned this the hard way in 1996, when rumors surfaced that its downstream partners were using sweatshops to create its athletic clothing. Nike tried to calm the rising tide of protests with spot-checks in Asian factories and agreements with suppliers. However, it was not until the company incorporated a CSR program into its core business functions and changed its approach to labor that the problem came under control.120 In the end, businesses depend on their own human rights record to maintain their reputation and business viability.

Corruption is another risk factor firms must take into consideration when operating abroad. Coming in the form of bribery and usury fees paid by workers to recruitment agents, both of which are closely tied to human trafficking, corruption is a stronger predictor of human trafficking than other poverty-related indicators. It is illegal for US businesses to participate in bribery—giving anything of value to a buyer that results in an “improper business advantage”—under the Foreign Corrupt Practices Act (FCPA). The Department of Justice and the Securities and Exchange Commission, the agencies that enforce the law, apply the rules broadly, holding the company liable for the activities of parties in its supply chain, including agents, business partners and suppliers. In 2012 companies paid US$259.4 million in fines and penalties for violating FCPA rules, and 16 people were sentenced to terms in prison.121

118 Interview with Dan Viederman, CEO, Verité.
120 Harvard University, Corporate Social Responsibility as Risk Management, March 2005.
As firms driven by economic opportunities and competitive pressures push particularly into emerging markets, their exposure to operational and government effectiveness risk—including corruption and lack of accountability among public officials—becomes more profound. According to the EIU’s Risk Briefing indicators, which measure operational risk in 186 countries, corruption levels are highest in countries throughout Latin America and the Caribbean, including Ecuador, Haiti and Honduras; countries in South Asia (Bangladesh, Cambodia, Indonesia and others); and countries in Sub-Saharan Africa (see map). With the continual search for top-line growth or bottom-line impact the need to operate in these geographies intensifies, and CSR programs that offset these risks become a staple in a company’s global strategic playbook.

Integrating human rights principles into its operations also brings the organization a number of benefits. This includes improved relations with stakeholders, better relationships with customers, a more secure license to operate, shareholder confidence, and an admirable corporate reputation and brand image. The impact translates into the human capital management space; implementing proactive policies that support workplace diversity is just one example where CSR can increase the size of the talent pool, improve worker productivity and drive creativity.

Sustainability and volunteer initiatives integrated into firms’ work cultures also help in terms of recruiting and retaining sought-after human capital and talent. This is especially true for younger workers like the Millennials—those born between the 1980s and 2000s, also known as Generation Y—who increasingly favor working for organizations with a positive social impact and whose values match their own. According to a 2012 Net Impact Survey, 72 percent of students about to enter the workforce noted that “a job where I can make an impact” was important to their happiness, compared with 53 percent for active workers. A more recent 2014 survey noted that graduating students would take a 15 percent pay cut to work for an organization that was committed to corporate and environmental responsibility (71 percent), work in a job that had a social or environmental impact in the world (83 percent), or work for an organization with values like their own (88 percent).122

While compelling business and moral cases can be made for a CSR approach to workforce management, it can also lead to difficult decisions that could harm the organization’s competitiveness. As Mara Swan of ManpowerGroup explains: “Many companies struggle with the fact that local competitors, especially in many emerging and developing countries, do not always strictly follow the law.”123 Conversely, local practices may be at odds with the organization’s CSR policies and international laws. For example, bribes may be common, but the organization’s policies must not be compromised. At the same time, the organization should set policies specifically for certain locations when needed, such as affirmative action, gender equity, and rights for people with disabilities.124

123 Interview with Mara Swan, Vice President of Global Strategy, ManpowerGroup.
Despite the challenges and costs associated with CSR programs, it is clear that their adoption and transparent integration with broader corporate strategies is a growing trend. The United Nations Global Compact, a commitment by firms to adopt sustainable and socially responsible practices (including those pertaining to labor and human rights), has seen more than 8,000 companies join since the year 2000, over half of which submitted corporate disclosure reports during the latest annual review.125 More importantly, organizations such as the Reputation Institute, Ethisphere and Dow Jones all produce annual rankings of the most ethical and sustainable firms, a fact of which both the firms and the marketplace are taking note.

The approach taken by the Campbell Soup Company and its former CEO, Doug Conant, is a prime example of the CSR value creation. The company’s ten-year journey to ensure “ethical and responsible” initiatives was publicly expressed as a key component of Campbell’s long-term business strategy, resulting in the firm being ranked in the top tier of all three of the above-mentioned company rankings. Mr. Conant’s “people first” approach and focus on employee engagement was instrumental in turning the previously failing company around.126 Ultimately, the recognition of such direct benefits is expected to result in CSR becoming the norm and not the exception in years to come.

---

Case study: Nestlé’s human rights impact assessment

Nestlé SA is a multinational food and beverage company based in Switzerland. Nestlé asked the Danish Institute for Human Rights (DIHR) to conduct a Human Rights Impact Assessment (HRIA) of its corporate policies in 2008. The company is now using the results of the assessment to establish itself as a leader in business and human rights.

Following the UN Guiding Principles on Business and Human Rights, Nestlé and the DIHR conducted a four-step assessment process. They first scoped the human rights risks at the country level using surveys sent to employees in various locations. Second, they conducted onsite interviews. Third, they analyzed the results and compiled a report that became the baseline for all Nestlé locations. This step also included a set of recommendations. The fourth step included an action plan with timelines for implementation. For every action, a person was designated to ensure the action happened in a timely manner.

Nestlé discovered that it is one of the top employers in many areas, but it did not settle for patting itself on the back. The company used the findings to set a number of additional actions it will take to further improve its human rights practices in the areas of living wages, health and safety, security, business integrity, community impacts, procurement, sourcing of raw materials, and products and marketing practices.

CHALLENGES FOR HUMAN RESOURCE MANAGEMENT AND GLOBAL BUSINESS STRATEGY

More than ever in history, companies and organizations today face both the opportunity and the challenge of employing global workforces that diverge in age, gender, education and culture.

This paper has shown how and why workforces will continue to comprise these differing attributes, as well as the advantages and pitfalls. This section presents the challenges human resources managers face when ensuring that their organizations succeed in the global environment.

THE GLOBALIZED WORKFORCE

HR challenge: Adapting hiring and retention strategies to prepare for tomorrow’s changing workforce

A dwindling youth population in developed economies and high youth unemployment in developing regions is causing skills shortages. Some of these shortages are being filled by older workers, more women in the workforce and cross-border migration. Demographic as well as cultural diversity will continue to define the global workforce as companies seek to fill shortages, gain market efficiencies and acquire strategic assets.

Older workers provide experience, but they also pose challenges for organizations, including providing healthcare for a population that will experience four-and-half-times as many disabilities as younger workers,127 creating flexible work schedules and shifting responsibilities away from physically demanding work. This is compounded in a global workforce that combines differing management and work styles based on individual cultures. The challenge is to identify the right job roles, incentives and retraining opportunities for each worker while avoiding age-discrimination practices.

The challenge is similar where gender is concerned. Governments and companies are creating accommodations such as day-care centers and flexible working hours for women, but taking advantage of a gender-diverse workforce requires an understanding of how to attract women into the workforce and providing rewards parity. In South Korea, only 60 percent of 25-64-year-old women are contributing to the workforce owing to social pressures, resulting in senior-level positions being exclusively filled by men. In response to this imbalance, Goldman Sachs is promoting underutilized female talent in South Korea.128

Many organizations are already using HR analytics for workforce planning. To avoid coming skills shortages, HR can expand its use of analytics such as gender and other diversity metrics to further understand the make-up of recruits and provide matching incentives.

HR challenge: Preparing for the complexities of hiring, managing and integrating a global workforce

The growth of liberal cross-border trade, the use of communications technology and the expansion of transnational companies are not likely to let up. Attracting global talent requires staying abreast of new strategies for finding and attracting talent. Business technology consultancy Infosys decided to hire Chinese graduates and started by inviting and teaching a select group of Chinese students English at its office in Mysore, India, allowing the company to source workers from a neighboring country cost-effectively.129

127 The NTAR Leadership Center, Employer Strategies for Responding to an Aging Workforce, 2012.
Engaging and Integrating a Global Workforce

Technologies such as social media are essential for recruiting, but the challenge is to align these new strategies with business goals. Aberdeen Group, a provider of business research intelligence, found that successful organizations are taking a holistic approach to recruitment that includes company branding, screening, assessment, hiring and onboarding, with technology helping at each step.\(^ {130}\)

Companies are also faced with the need to develop the means to assess skills across divergent talent sources and then creating training programs to fill skills gaps after employees are hired. In addition, they need to understand how to manage and integrate multicultural employees. When US pharmaceutical Upjohn merged with Swedish Pharmacia AB, no one foresaw the resistance to company-imposed policies such as alcohol-testing and smoking, which resulted in cost overruns, a slowdown in product launches and the eventual sale of the company.\(^ {131}\)

---

\(^ {130}\) Aberdeen Group, Talent Acquisition 2013: Adapt Your Strategy or Fail, 2013.

Managers can begin by understanding the nuances of the cultures using various tools such as Hofstede’s lenses, explained earlier in this paper, or the GLOBE project’s nine dimensions of culture. Although these tools tend to simplify the complex issues, they provide good bases for understanding the diverse cultures of employees and encouraging sensitivity.

**GUIDING CORPORATE STRATEGIC DECISION-MAKING**

**HR challenge: Incorporating the human capital opportunities and risks from operating abroad into corporate strategic decision-making**

Workforce opportunities are marked both by steady improvements through the political machinations that open trade across borders and enable cross-border migrations, and by sudden and often unexpected changes such as the relaxation in relations between the United States and Cuba; conflicts in Syria, Iraq and Ukraine; and dramatic swings in oil prices. The challenge for companies is to remain nimble to take advantage of the opportunities while avoiding the risks.

HR’s challenge is to gather, assess and understand all the cultural, labor and market complexities of operating in each market so that the company can predict opportunities and risks, know when to enter or exit a market, and integrate successfully into new local markets.

The success of a company’s global growth hinges on HR integrating the workforce. HR-led teams need to assess the complexities of bringing together workforces with often dissimilar societal and corporate cultures. HR can, for example, identify potential roadblocks early and plan interventions before problems arise. The food facilities management company Sodexo identified a need for diversity and inclusion across its 355,000 employees from North American to China. It developed training programs that resulted in significant numbers of women, youths, people with disabilities and indigenous workers productively joining its workforce across the globe.

**HR challenge: Making the business case for CSR**

Corporate social responsibility is among the top challenges companies face when expanding into new markets, especially in developing regions. Business practices that are acceptable locally are frequently at odds with the values of the company and the laws of its regulatory agencies. This creates a tug-of-war between social responsibility and the need to be successful in those markets, which can turn into significant risk.

The challenge for HR is to gain a detailed understanding of local environments and their accepted business practices. It then needs to establish protocols that are customized for each region and communicate these protocols throughout the organization and across its supply chain.

When local labor laws or practices conflict with the organization’s CSR policies, HR needs to be the voice of the individual and ensure that the company maintains its integrity, even when this goes against the potential economic value. HR faces the additional challenge of demonstrating to the company how good CSR policies strengthen the brand, increase customer loyalty and boost shareholder value.

**HR challenge: Balancing corporate and societal cultures while promoting diversity**

Some cultural attributes, such as a command-and-control management style, can be modified to fit local cultures, while others, such as integrity and human rights policies, cannot be compromised. HR needs to understand and deal with the complexities, deciding which corporate culture elements can change and which are essential to protecting the organization’s values and ethics. The company cannot change anti-bribery policies, but it may choose to change

---

132 Ibid.
its dress-down-Fridays rule. Management may also choose to impose cultural elements, such as giving back to the community consistently across the global organization. The challenge becomes even more complex when dealing with new workers, those engaged through means such as crowdsourcing, as well as remote and temporary workers. HR also needs to develop programs to assist executives to adapt when they move from the head office to regions with different societal and cultural norms.

PREPARING FOR THE FUTURE

HR challenge: Preparing a new set of globally prepared leaders
Cultural diversity is frequently seen as a challenge, but it also provides great advantages. For example, a culturally diverse workforce may come up with more creative and innovative solutions to problems, because each person brings more unique perspectives and experiences to the table.

The challenge for HR is to educate managers on how to take advantage of the cultural differences while mitigating any friction. Developing practices for promoting collaboration among diverse workers and communicating values and policies across countries and ethnicities will be important to driving success within global organizations.

HR challenge: Identifying skills on a local level
Companies that can identify skills beyond those presented in traditional CVs and résumés will have an advantage over their competitors. Identifying the desired skills and finding them in a pool of candidates is a significant challenge for HR, especially when entering new markets and geographies.

STAYING WITHIN LAWS

HR challenge: Maintaining a comprehensive understanding of regulations and hiring laws
Temporary and part-time workers play an important role in today’s workforce. Yet laws regarding these workers differ from country to country. Indonesian law, for example, does not recognize the concept of part-time workers, who are consequently entitled to the same rights as full-time workers. Temporary workers, too, must receive the same benefits as permanent workers.

HR’s challenge when conducting workforce planning is to understand the nuances of the laws and customs in each of the regions where it operates and ensure that it is treating part-time, temporary and remote workers legally.

Regulations become murkier when the employment process is conducted through online crowdsourcing or other, less traditional recruiting methods, further increasing the risks while demanding greater understanding of compliance from HR.

Keeping up-to-date with ever-changing and complex labor laws in each country and region will continue to present a constant challenge beyond the traditional visa issues, local versus foreign worker regulations and migration laws.
CONCLUSION

Globalization is a force that increasingly touches the lives of people living in all countries of the world. Country borders are metamorphosing from barriers to bridges as a result of trade liberalization, increasing levels of education among women and workers in developing countries, and advancements in technology. Goods, services and labor talent are now flowing more freely across the globe than ever before. Except for occasional protectionist flare-ups, these trends will likely continue.

The opportunities are abundant, from greater efficiencies and access to new markets for organizations to improved job opportunities and higher wages for skilled workers. The challenges are equally copious. Organizations need to deal with an ageing workforce; they must attract, integrate and maintain multicultural employment pools; and they have to contend with human rights and business practices that may be counter to the values and laws governing the organization.

Solutions that take advantage of each opportunity and rise above each challenge become ever more complex when the global element is added. Providing hiring incentives and developing a management and reward system that takes into account a spectrum of societal and corporate cultures can be daunting. Organizations that manage these challenges skillfully will find success and improve the lives of workers throughout the world.

APPENDIX

References

Aberdeen Group, *Talent Acquisition 2013: Adapt Your Strategy or Fail*, 2013


Cisco, *Transitioning to Workforce 2020*, 2011

Deloitte, *Cultural issues in mergers and acquisitions*, 2009


Economist Intelligence Unit, *The, “China’s urban dreams, and the regional reality”, 2014


EF English Proficiency Index, *Education First*, 2014

Ernst & Young, *Tracking global trends: how six key developments are shaping the business world*, 2010 (www.ey.com/globaltrends)


Goldman Sachs, Womenomics 4.0: Time to walk the talk, 2014 (http://www.goldmansachs.com/our-thinking/outlook/womenomics4-folder/womenomics4-time-to-walk-the-talk.pdf)


Harvard University, Corporate Social Responsibility as Risk Management, March 2005 (http://www.hks.harvard.edu/m-rcbg/CSRI/publications/workpaper_10_kyle_ruggie.pdf)


House, Robert et al., “Culture, Leadership, and Organizations”, The GLOBE Study of 62 Societies, 2004


Independent, The, “G20 summit: World’s leaders promise to get 100 million more women into work”, November 17th 2014 (http://www.independent.co.uk/news/business/news/g20-summit-worlds-leaders-promise-to-get-100-million-more-women-into-work-9864274.html)


International Organization for Migration, Migration Facts and Figures (https://www.iom.int/cms/media/infographics)


Engaging and Integrating a Global Workforce


OECD, *Education Indicators in Focus*, May 2012 (http://www.oecd.org/edu/50495363.pdf)


Shenkar, Oded, “Cultural Distance Revisited: Towards a More Rigorous Conceptualization and Measurement of Cultural Differences”, *Journal of International Business Studies*, 2001


Shore, Lynn, “Diversity in organizations: Where are we now and where are we going?” *Human Resource Management Review*, 2009


Stahl, Günter et al., “Unraveling the effects of cultural diversity in teams: A meta-analysis of research on multicultural work groups”, *Journal of International Business Studies*, 2009


Teras, Vas et al., “Improving national cultural indices using a longitudinal meta-analysis of Hofstede’s dimensions”, *Journal of World Business*, 2012

Tata fast facts (http://www.tata.com/pdf/Tata_fastfacts_final.pdf)


UNESCO Institute for Statistics


Washington Post, “Japanese leader Abe wants more women to work. So he’s got big plans for day care”, August 1st 2014 (http://www.washingtonpost.com/world/asia_pacific/japanese-leader-abe-wants-more-women-to-work-so-hes-got-big-plans-for-day-care/2014/08/01/8ddcd84f5-c4b2-4e39-a1e0-125eaa57309b_story.html)


World Values Survey, *Findings and Insights* (http://www.worldvaluessurvey.org/WVSContents.jsp)

Xu, Bo et al., “The Effects of Cultural Difference on Cross-border M&A Integration”, *International Journal on Data Mining and Intelligent Information Technology Applications*, 2013


ABOUT THE SHRM FOUNDATION

At the SHRM Foundation, we are a catalyst for thought leadership. We help predict where the workforce is headed because we’ve been studying its evolution for over 40 years. Our mission is to offer unmatched human capital knowledge for the benefit of professional organization leaders with a total focus on studying and reporting the management practices that work. Supporting the Foundation is a chance to contribute to an ongoing study about the direction of human resources in society. A 501(c)(3) nonprofit affiliate of the Society for Human Resource Management (SHRM), the SHRM Foundation is governed by a volunteer board of directors, comprising distinguished HR academic and practice leaders. Contributions to the SHRM Foundation are tax-deductible. For more information, contact the SHRM Foundation at (703) 535-6020. Online at shrmfoundation.org.