CHICAGO FOOD AND BEVERAGE COMPANY: THE CHALLENGES OF MANAGING INTERNATIONAL ASSIGNMENTS

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CASE DESCRIPTION

The primary subject matter of this case concerns the management of expatriate managers with a particular focus on their recruitment and compensation. Secondary issues examined include the internationalization strategies of a multinational company and particularly the alignment of international strategy and headquarters' orientation regarding the international human resource management policy. The case has the difficulty level of six (appropriate for second year graduate level). The case is designed to be taught in three class hours and is expected to require five hours of outside preparation by students.

CASE SYNOPSIS

The Chicago Food and Beverage Company (CFB Co.) is an American multinational with subsidiaries in North America, Europe and Asia. The case is about the alignment of CFB Co. internationalization strategy and the orientation of the head office in regard to its international human resource management (IHRM) policy and management of international assignments, with an emphasis on expatriates' recruitment and compensation. The case describes the international development of the company and the subsequent expatriation of Paul Fierman, the head of the Vietnam subsidiary. Paul's three-year mandate includes the preparation and execution of the strategy to synergize the three Asian subsidiaries (Singapore, Hong Kong, Vietnam) with the collaboration of the head of the Pacific Rim, which should allow CFB Co. to conquer the Asian market. Six months after his arrival, Paul Fierman is disappointed by the financial conditions of his contract and by his relationships with local colleagues, not to mention the difficulties his wife has been having adapting to this new environment. The discussion of this case in class allows introducing and illustrating the theoretical concepts related to the following topics: 1) internationalization strategies and international human resource management policies; 2) strategic management of international postings; and 3) advantages and disadvantages of different international compensation methods.

EVOLUTION OF CHICAGO FOOD AND BEVERAGE COMPANY FROM 1960 TO 1998

Chicago Food and Beverage Company (CFB Co.) is an American multinational which was established in Chicago in 1963. The company is specialized in the production of all kinds of fruit jams, canned fish, meat, vegetables, and non-alcoholic beverages. CFB Co. is primarily an American company and until 1985, it concentrated exclusively on the U.S. market. Due to its reputation as a high-technology intensive company and its capacity to adjust to the changing market demands, CFB Co. grew rapidly. It expanded all over the U.S. through its five national subsidiaries based in Chicago, New York, Atlanta, Los Angeles and Portland. In 1985, CFB Co. became the fifth largest American producer in the food and beverage sector. In 2003 its revenues amounted to several billion U.S. dollars (US$).

Since the long U.S. recession of the 1980s, CFB Co.'s management wanted to expand abroad so that the company wouldn't be so dependent on the already saturated domestic market. However, Mr. Brandon Long, CEO of the company since it was established, stubbornly opposed the idea. In late 1984 Mr. Long retired and was replaced by Mr. Bill Stevens who always dreamed of CFB Co. becoming a global power. With top management's approval, CFB Co.'s foreign expansion plans finally started and at the beginning of 1985, the company went international. The foreign expansion plans included two growth strategies: the company would either purchase small foreign enterprises operating in the same sector or establish joint ventures with foreign food and non-alcoholic beverage producers. CFB Co. expanded to Europe first, and between 1985 and 1990, the company acquired three local enterprises in Belgium, France, and Germany.

Following that, from 1991 to 1998, CFB Co. turned toward the Asian market, installing three joint ventures in that region. According to CFB Co.'s managers, there was a huge potential for food processing and distribution in the Asian market because firstly, it accounted for over 60% of total world population, and secondly, Asian consumers' expenditures were increasing three times more rapidly than those of North Americans. Therefore, the company's expansion to this region was thought to be of crucial importance for its economic health. Thus, the first joint venture specializing in Asian fruit-based jam production was established in 1991 in Singapore. The second joint venture which was created in 1995 in Hong Kong produced canned fish, meat and vegetables. The third joint venture, started in 1998 with a Vietnamese subsidiary based in Haiphong, specialized in the production of all kinds of non-alcoholic drinks, fruit juices, and sodas. Although some of their clients are based in the neighbouring countries, each joint venture produces its own products which are basically distributed on the local market. There is no cooperation between subsidiaries since they are considered as completely independent entities from each other.

CREATION OF CFB VIETNAM JOINT-VENTURE IN 1998

CFB Vietnam, created one year after the beginning of the Asian economic crisis, is a joint-venture between CFB Co. (which owns 49% of capital) and a local state-owned enterprise (which owns 51% of capital). It was CFB Co.'s largest investment in Vietnam. The joint venture formula was chosen due to the mutual advantages it offered to the parties involved. On the one side, CFB Co. was gaining rapid access to the Vietnamese market, benefiting from the lands, buildings, and other infrastructure of the local enterprise and from the cheap national labour costs. On the other hand, the Vietnamese counterpart was benefiting from the accrued capital, high technology transfers, and American know-how. Therefore, the joint venture was rapidly granted with the licence to produce and distribute non-alcoholic drinks in the Vietnamese market. During its first year of functioning, the multinational invested more than US$ 2 million in bottling equipment. In three years, the subsidiary became the second biggest non-alcoholic beverage producer in Vietnam. It had only one competitor in the market: Vietnam Drinks Company, which was the national producer of all kinds of drinks and had its headquarters in Ho Chi Minh City.

The subsidiary is located in Haiphong, the third largest city in Vietnam after Ho Chi Minh and capital city of Hanoï. Haiphong is one of the three cities of the Northern economic triangle (Hanoi - Haiphong - Quangninh) and is very popular among foreign investors. CFB Co. management had chosen Haiphong for its economic dynamism and its accessibility to the sea, rail and air transport. Haiphong represents a main gateway by the sea to the Northern provinces of Vietnam, facilitating fluvial commercial exchanges not only with the whole country but also with neighbouring countries. The subsidiary's activities, its production, bottling factory, and administrative buildings, are all concentrated in one site situated at the Northern periphery of Haiphong. CFB Vietnam's primary mission was to produce exclusively for the national market, with an objective to export its products to neighbouring Asian countries over the next three years.

CFB CO. RESTRUCTURING IN 2000

At the end of 1999, CFB Co. started to lose money in all of its foreign operations. National and international competition grew in all markets and consumers became quality-oriented. Even though the company's main operations in the U.S were still profitable, the figures were declining significantly as compared to the 1998 levels. The modest profits from the U.S. plants were not enough to offset the losses reported abroad.

In 2000, U.S. headquarters analysed the situation and decided to undertake a radical strategic change. In order to reduce costs and achieve greater profits, the company's management decided to regroup its food and beverage production activities into three regional zones: United States, having its center in Chicago; Europe, with its regional center in Brussels; and Asia, with its center in Singapore. In other words, the subsidiaries which previously enjoyed exclusive rights in their respective local markets had to be integrated into “three regional networks: United States, Europe, and Asia”.

This strategy was expected to allow CFB multinational to find synergies within these three regional zones and thus to assure a significant increase in revenues per region. For instance, CFB Co.’s management wants the Vietnamese subsidiary to export its non-alcoholic drinks to the whole Asian zone, helped by the distribution systems of other regional subsidiaries from Hong Kong and Singapore. It is therefore necessary to create and implement common distribution and communication strategies. The main objectives are to reduce costs, to increase revenues and to promote CFB Co.’s activities in the whole Asian region.

CHANGES IN EXPATRIATES’ COMPENSATION POLICY IN 2002

Back in 1985, when CFB Co. started its international expansion, the company did not have any experience in the field of expatriation management. Since the initial stage of foreign growth strategy, only a small number of expatriates were used. Therefore, the Chicago management team opted for a flexible expatriate compensation approach: the negotiation method. According to this method, each expatriate is handled case by case; the components included in the compensation package represent the final outcome of negotiations between the expatriate and the company. Moreover, this compensation formula is beneficial due to its administrative simplicity, requiring little information on costs of living and tax issues in host countries. Over the years, however, the multinational company penetrated several European and Asian markets and, therefore, the number of its expatriates increased considerably. Hence, starting in 1998 CFB Co. employed constantly about 25 American expatriates. With increasing expatriation development, the negotiation method became less effective, more time consuming, and rather expensive. In order to keep its costs under control, CFB Co.’s senior management decided that a significant change in its current expatriate compensation philosophy would be needed.

In 2002, Chicago human resources department (HR), which manages the company’s expatriates, adopted a new and mixed compensation approach. In light of this approach, different compensation systems are proposed to senior and junior expatriates. Seniors, expatriates having more than six years of international experience, are compensated according to the international method. In this case, a specific international scale is applied to all senior expatriates. During their expatriation period, senior expatriates are compensated using the international compensation scale and once they are back in their home countries, they reintegrate the standard national compensation scale. Expatriate juniors, having less than six years of international experience, are compensated in line with the home country method, which uses the balance sheet approach. According to this method, the parent company allows it’s expatriate to make the same expenditures in terms of accommodation, goods and services in the host country as those that would have been incurred in the home country had the employee remained at home. Moreover, the company commits to maintain the purchasing power of its expatriates in the host country, making some adjustments to the home compensation package in order to balance additional expenditures in the host country due to a higher cost of living index. The key purpose of this approach is to ensure that expatriate employees are no better or worse off as a result of an international assignment.

The summary of important events in the evolution of CFB Co. is presented in table 1.

Table 1: Summary of important events in the evolution of CFB Co.

Year	Important event
1963	Creation of Chicago Food and Beverage Co., Chicago, United States
1963-1985	Expansion in United States, five American subsidiaries based in Chicago, New York, Atlanta, Los Angeles and Portland
1985	Beginning of the international adventure
1985-1990	Acquisition of three European local companies: Belgium, France, Germany
1991-1998 1991 1995 1998	Conquest of the Asian market: Joint venture Singapore; Joint venture Hong Kong; Joint venture Vietnam
1999	CFB Co.'s economic slowdown
2000	CFB Co.'s strategic change and restructuring: creation of three regional networks: United States – Europe – Asia
2002	Introduction of the new expatriates' compensation policy: the mixed compensation method
2004	Recruitment and expatriation of Paul Fierman to Haiphong (Vietnam)

PAUL FIERMAN'S EMPLOYMENT WITH CFB CO. AND HIS EXPATRIATION TO VIETNAM IN 2004

Paul Fierman, a 34-year-old American, was appointed General Director of CFB Vietnam at the end of March 2004, with a mission to lead the subsidiary and to implement the new organizational strategy.

Obtaining this expatriate position was not a difficult endeavour for Paul. In 1995 he earned his bachelor's degree in marketing from Johnson Business School, at Cornell University in New York. After graduation, Paul took a position as product vice-manager in the marketing department at the New York subsidiary of CFB Co. Three years later, he became carbonated non-alcoholic beverages' manager for the Eastern American region. After two years in this position, Paul was put in charge of both carbonated and non-carbonated non-alcoholic drinks in the U.S. market. As a country manager, he was paid US$ 300.000 annual base salary and 10% to 15% commission on sales. Although Paul was satisfied with his job, he wanted to reorient his career towards general management positions in this company. Therefore, in 2002 he decided to undertake a full-time Master in Business Administration studies in international management at Harvard Business School in Boston. After completing his MBA, Paul wanted to come back to CFB Co., but in order be able to reach the pinnacle of his career, he thought he needed to acquire some international professional experience. The only international experience he had so far was a year spent in Oxford, Great Britain, as an exchange program student.

Paul Fierman's employment for CFB Co. is summarized in table 2.

Table 2: Paul Fierman's professional evolution

Year	Professional evolution
1995	Bachelor's Degree in Marketing, Johnson Business School, Cornell University, New York; Recruitment by CFB Co., New York subsidiary, product vice-manager
1998	Regional product manager: Eastern U.S. markets, carbonated non-alcoholic beverages
2000	Country brand manager: U.S. markets, carbonated and non-carbonated non-alcoholic beverages
2002-2004	Master of business administration in international management, Harvard Business School, Boston
2004	Expatriation to Haiphong, Vietnam

During his M.B.A. studies, Paul kept in touch with his former supervisor at his first position within CFB Co., Allan Roger, marketing director of the New York subsidiary. Just before graduating from his M.B.A., Paul called Allan to discuss about his potential return to the company. Allan, very enthusiastic about this perspective, told him:

"Mike Shannon, the expatriate Managing Director of CFB Vietnam, has just returned to the U.S. unexpectedly due to health problems. Since Mike's departure was not planned, the headquarters are desperate to replace him as soon as possible. If you are interested, you can send me your application for the position of Managing Director in Haiphong, and I will forward it to the General Manager in Chicago. In my opinion, Paul, you have a high professional potential in this company. Your lack of international experience is a problem…, but it does not mean that you would not be able to prepare and implement, in collaboration with the regional director of Pacific Rim, the new strategy aiming at integrating the three Asian subsidiaries. This expatriation would be an exceptional training experience for you, preparing you for a higher level managing position within the Chicago headquarters on your return to the U.S., three years later."

With his experience within CFB Co. and his high recommendations, Paul Fierman was a good candidate for this three-year expatriate position. He was perceived as a promising young manager due to his excellent academic background and the outstanding professional results he achieved during his employment within the company.

At that point, things went very fast. In March 2004, thanks to Allan's intervention and contacts, Paul met directly with the General Manager in Chicago. Two weeks later, a notice of approval had been sent to Paul from the Chicago HR department, officially confirming his managing position within CFB Vietnam. Robert Greenberg, managing director in charge of the Pacific Asia region, had been informed about Paul's nomination by Chicago's General Manager himself. One month later, in April 2004, Paul began his new position in Haiphong. Before his departure he spent a couple of weeks preparing his move and organizing the rental of his house in New York. His wife Carrie and their seven-year-old daughter Rachel joined him two months later in Haiphong. These two extra months gave Carrie enough time to have her dismissal accepted by her employer. In the meantime, Paul settled into their new Vietnamese house and enrolled their daughter at Haiphong international school. Before his departure, Paul bought three books on Vietnam in order to get some preliminary knowledge about the general business context of the country. However, his readings on culture and the economic and political history of Vietnam seemed to be too disconnected from today's business reality.

One week before his arrival in Vietnam, Paul had a three hour meeting with Robert Greenberg in New York. Robert showed him the outlines of the corporate strategy aiming at creating synergies among the three Asian subsidiaries. Since then, they never spoke to each other directly anymore.

PAUL AND ARRIE'S FRUSTRATION SIX MONTHS AFTER THEIR ARRIVAL IN HAIPHONG

Six months after his arrival in Vietnam, Paul was feeling extremely frustrated. Sadly, he begins to explain to his wife Carrie:

"I have two big problems. My first one is related to the financial conditions of my expatriation contract. When I applied for this expatriation position in Vietnam, I expected to benefit from an excellent compensation offer, as all the other expatriates I had met before in the CFB Co. internal conferences had enjoyed. Although the final result of negotiations with the HR manager from headquarters varied from one expatriate to another, all of them were generally managing to negotiate at least double their previous salaries and lots of mobility, protection of purchasing power, accommodation, and hardship allowances. I thought that this expatriation to Vietnam would be not only a springboard for my career but also a good financial move. Unfortunately for me, the expected financial gain did not materialize. I am one of the five expatriates out of 25 who have less than six years of international experience. My compensation is therefore calculated according to the balance sheet approach. Of course, the cost of living in Haiphong is significantly lower than in New York and the company had provided me with a nice house and a good company car. Nevertheless, I feel upset and frustrated. The expatriates from other multinational companies that I met in Hanoi and Ho Chi Min City enjoy better living conditions. In addition, they live in far more attractive cities than Haiphong. As I am the only American expatriate in CFB Vietnam, I feel isolated and frustrated. Since my arrival in Haiphong, I have practically worked alone in order to make the things work. The expatriates from CFB Hong Kong and CFB Singapore subsidiaries are all seniors, they are paid according to a far more advantageous compensation scale, plus they are living in very modern cities where all the usual distractions Americans are accustomed to are available. Furthermore, these two Asian subsidiaries employ several expatriates who are all collaborating closely in order to achieve their objectives together. Between Hong Kong and Singapore, the expatriates are used to pay each other regular friendly visits. My own salary does not allow me to enjoy the week-ends that my counterparts from Hong Kong and Singapore are enjoying."

Carrie was not surprised. She had many times noticed the sad mood of her husband in the past few months… She encouraged him to continue. "What is your other problem?"

"My second problem is related to my work. I feel very frustrated by the results of my work in the subsidiary and the relationships I have with my Vietnamese colleagues. The financial situation of the subsidiary six months after my arrival is very bad: declining revenues, decreasing motivation of Vietnamese plant workers and staff, lack of cooperation on behalf of local management, etc. The implementation of the new organizational strategy is far from even getting off the ground! I have to handle all these problems alone. I have the impression that my work does not produce any of the expected results… What about you, Carrie, how do you feel?"

Carrie's situation was hardly encouraging. Carrie seemed to be getting more and more depressed and irritated. Before their departure from U.S., she had been starting her fourth year of employment at the New York Stock Exchange as a financial analyst. Even though she liked her job and had good prospects for advancement in her career, she seemed enthusiastic to accompany her husband to Vietnam for the entire expatriation period. Thus, she could spend more time with their daughter. Carrie collected her thoughts and her courage and replied to Paul:

"To me, who have never left the North American continent, Vietnam seemed to be an exotic country… and I thought, before our departure, that your expatriation would be a very new, enriching experience. However, this experience turns out to be hard to get through. Life here in Haiphong is not what I had imagined. Being used to work, I am getting bored staying home all day long. I also miss my family and friends whom we were used to visiting regularly in New York. Besides that, I have to admit that Haiphong's heat and humidity are really unbearable for me… And finally, I am also very worried for Rachel. The fact that she has arrived in the middle of the school year in the local Anglophone school prevents her from making any friends, as her classmates do not speak English outside the classroom. Rachel no longer wants to do her homework and cries every morning before going to school… We definitely cannot go on like this! What will we be doing, Paul? I hardly recognize our family, which is normally so happy.”

SELECTED QUESTIONS FOR CASE DISCUSSION

Topic 1: Alignment of International Strategy and Headquarters' Orientation Regarding the International Hrm Policy

1. Which internationalisation strategies do you recognise in this case study?
2. What is the HRM orientation adopted by the headquarters? What comments can you make concerning this choice? What can you recommend to the company's headquarters in this sense?

Topic 2: Expatriation Management

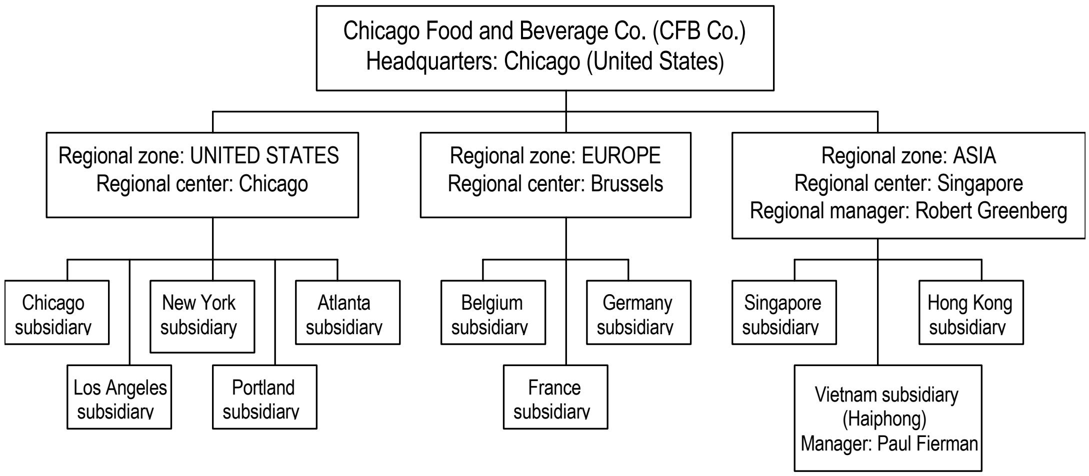
1. Is Paul Fierman a good candidate for this expatriation position?
2. What comments can you make on the expatriation management in general? And what comments can you make on the expatriate recruitment policy in particular?

Topic 3: Compensation of International Staff

1. What are the different expatriate compensation methods you recognised in the text? What are the advantages and disadvantages of these different expatriate compensation methods?
2. What do you suggest to the U.S. headquarters' human resources manager in order to improve the expatriate satisfaction / compensation?

Appendix 1
Map of South-East Asia

Appendix 2
Chicago Food and Beverage Co. organizational chart



Appendix 3
Compensation packages

Table 1: Annual compensation package of a junior expatriate employee: balance sheet approach

Employee: Paul Fierman
Position: General manager of CFB Vietnam
Country: Vietnam
Reason for relocation: New assignment
Effective date of change: 5April 2004

Item	Total amounts US$	Paid in US$	Paid in local currency VN dong
Base salary:	320,000	160,000	2602240000
Hardship allowance (20%)	64,000	64,000	
Trip allowance	25,000	25000	
Housing deduction	- 22,000	- 22,000	
Car deduction	- 5,000	- 5,000	
Tax equalization	- 43,200	- 43,200	
TOTAL	338,800	178,800	2602240000

Cost of leaving allowance index: Haiphong: 84; New York: 100
Exchange rate: US$ 1 = 16,264 VN dong

Table 2: Annual compensation package of a senior expatriate employee: international method

Employee:
Position: General manager
Country: Hong Kong
Effective date of change:

Item	Total amount (US$)	Paid in US$	Paid in local currency HK$
Base salary	400000	200000	1560000
Cost of living allowance	25000		195000
Overseas service premium (20%)	80000	80000	
Trip allowance	35000	35000	
Schooling allowance	10000	10000	
Taxprotection	50200	50200	
Housing and car provided			
TOTAL	600200	375200	1755000

Cost of living allowance index: Hong Kong: 110; New York: 100
Exchange rate: US$ 1 = HK$ 7.8