GLOBAL HUMAN RESOURCE MANAGEMENT

BBA THIRD YEAR

Semester – 5

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining a 'A' Grade from the NAAC in the year 2014, the Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 285 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education with the aim to bring higher education within reach of all. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even housewives desirous of pursuing higher studies. With the goal of bringing education in the door step of all such people. Acharya Nagarjuna University has started offering B.A, and B, Com courses at the Degree level and M.A, M.Com., L.L.M., courses at the PG level from the academic year 2021-22 on the basis of Semester system.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers invited respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn facilitate the country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Coordinators, Editors and Lesson -writers of the Centre who have helped in these endeavours.

Prof. P.Rajasekhar
Vice –Chancellor,
Acharya Nagarjuna University

B.B.A THIRD YEAR

SEMESTER – V

502 BBE21 – GLOBAL HUMAN RESOURCE MANAGEMENT

SYLLABUS :

Unit – I :

Introduction to IHRM :

Difference between IHRM and Domestic HRM, Reasons for emergence of IHRM, Organizational dynamics and IHRM : Role of culture in IHRM,

Organizational Processes in IHRM, Challenges of International Human Resource Management.

Unit – II :

Recruitment, Selection in International context :

International Managers- Parent country nationals, third country nationals, host country nationals, Recruitment methods using head-hunters, cross-national advertising, e-recruitment; Selection criteria and techniques, Selection tests, interviews for international selection...

Unit – III :

Performance Management :

A conceptual background, performance management cycle, models, Appraisal of expatriate, Third and host country employees, issues and challenges in international performance management, country specific performance management practices.

Unit – IV :

Training and development in international context :

Training and development of international staff, types of expatriate training, HCN training, Career Development, repatriate training, developing international staff and multinational teams, knowledge transfer in multinational companies.

Unit – V :

International Compensation :

Forms of compensation and factors that influence compensation policy, Key components of international compensation, compensation practices across the countries, social security systems across the countries, global compensation : emerging issues.

References :

1.   Monir H. Tayeb, International Human Resource Management, Oxford University Press, 2005.

2.   Peter J. Dowling, Denice F. Welch, International Human Resource Management, Cengagelearning.

3.   Aswathappa K, Sadhna Das, International Human Resource Management, Mc Graw Hill.

4.   Evans, Pucik, Barsoux, The Global Challenge: Framework for International Human ResourceManagement - Tata McGraw-Hill Irwin.

5.   Tony Edwards, Chris Rees, International Human Resource Management, Person Education.

6.   Rao P. L., International Human resource Management, Excel Books.

7.   Chris Brewster, International Human resource Management, University Press.

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MODEL QUESTION PAPER

B.B.A. DEGREE EXAMINATION,

Third Year – Fifth Semester

Part II

Paper VI – GLOBAL HR MANAGEMENT

Time: Three hours   **Max. Marks: 70**

SECTION A–(5 x 4 = 20 marks)

Answer any FIVE of the following.

Each question carries 4 marks.

1.   What is Domestic H.R.M.

2.   Write about organisational Dynamics.

3.   Write a note on Host Country Nationals.

4.   Write about job analysis.

5.   Write a brief note on personality test.

6.   What is knowledge Transfer?

7.   What do you mean by global competition?

8.   Write about social security system.

SECTION B – (5 x 10 = 50 marks)

Answer ALL questions.

Each question carries 10 marks.

9. (a) Explain various involved issues involved in International H.R.M.

Or

(b) Explain the role of culture in H.R.M.

10. (a) Explain the need and significance of cross National advertising.

Or

(b) Explain the steps involved in international recruitment and selection.

11. (a) Explain the stages of performance management cycle.

Or

(b) Write a detailed note on country specific performance management practices.

12. (a) What factors influence career Development? Explain.

Or

(b) Explain the role of Training in developing HR capacities.

13. (a) Explain key components of international compensation.

Or

(b) Explain various factors that influence compensation policy.

CONTENTS

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LESSON – 1

INTRODUCTION TO IHRM

</div>

Learning objectives :

- ✓　　To study the objectives of IHRM

- ✓　　To know he model of IHRM

- ✓　　To analyse the reasons for the companies to go Global

- ✓　　To learn approaches to IHRM

Structure of the lesson :

1.1 INTRODUCTION TO IHRM :

Globalization is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. According to the Levin Institute, the term globalization refers to the increasing connections people, companies and states are forming around the world. The process of forming social and economic ties across vast distances is nothing new historically; however, technological improvements and liberal trade

agreements have increased these connections greatly in contemporary times. Advances in transportation and telecommunications infrastructure, including the rise of the Internet, are major factors in globalization, generating further interdependence of economic and cultural activities. With globalization, companies moving out of political boundaries have also enhanced the need for human resource functions to go global. In this unit, we will learn about Global HRM, the drivers of globalization and also the variables that moderate differences between HRM and GHRM.

1.2 GLOBAL HRM :

With the advent of globalization, organizations – big or small have ceased to be local, they have become global! This has increased the workforce diversity and cultural sensitivities have emerged like never before. International dimensions of business and the globalization of business have a significant impact on human resource management. All this led to the development of Global Human Resource Management. HRM refers to those activities undertaken by an organization to utilize its human resources effectively. Human resource management (HRM) as a business practice comprises several processes, which used together are supposed to achieve the theoretical goals mentioned above. Induction and orientation

- Recruitment (sometimes separated into attraction and selection)

- Workforce planning

- These practical processes include Personnel administration

- Training and development

- Skills management

- Employees benefits administration

- Payroll (sometimes assigned to accounting)

- Travel management (sometimes assigned to accounting)

- Time management

- Compensation in wage or salaries

- Performance appraisal

- Personnel cost planning

1.3 OBJECTIVES OF GLOBAL HRM :

We may therefore, enumerate the objectives of global HRM as follows :

1. Create a local appeal without compromising upon the global identity.

2. Generating awareness of cross cultural sensitivities among managers globally and hiring of staff across geographic boundaries.

3. Training upon cultures and sensitivities of the host country

1.3.1 Expatriates :

An expatriate (commonly abbreviated expat) is a person temporarily or permanently residing in a country and culture other than that of the person's upbringing. The word comes from the Latin terms ex ("out of") and patria ("country, father-land").

In its broadest sense, an expatriate is any person living in a different country from where he is a citizen. In common usage, the term is often used in the context of professionals sent abroad by their companies, as opposed to locally hired staff. The differentiation found in common usage usually comes down to socio-economic factors, so skilled professionals working in another country are described as expatriates, whereas a manual labourer who has moved to another country to earn more money might be labelled an 'immigrant'. There is no set definition and usage does vary depending on context and individual preferences and prejudices.

The term 'expatriate' in some countries also has a legal context used for tax purposes. An expatriate living in a country can receive a favourable tax treatment. In this context a person can only be an expatriate if they move to a country other than their own to work with the intent of returning to their home country within a certain period. The number of years can vary per tax jurisdiction, but 5 years is the most commonly used maximum period. If you are not affected by taxes 3 years is normally the maximum time spent in one country.

International corporations often have a company-wide policy and coaching system that includes spouses at an earlier stage in the decision-making process. Not many companies provide any compensation for loss of income of expatriate spouses, although they often do provide other benefits and assistance. The level of support differs, ranging from offering a job-hunting course for spouses at the new location to full service partner support structures, run by volunteering spouses supported by the organization.

There are several advantages and disadvantages of using expatriate employees to staff international company subsidiaries. Advantages include, permitting closer control and coordination of international subsidiaries and providing a broader global perspective.

Disadvantages include high transfer costs, the possibility of encountering local government restrictions, and possibly creating a problem of adaptability to foreign environments.

HR departments often use services of relocation companies, who assist expats in moving abroad as well as managing expat's related administrative issues such as : assignment management, financial management and reporting to name a few.

1.4   TYPES OF INTERNATIONAL EMPLOYEES :

There are three basic sources, the MNCs can tap for overseas positions :

1.4.1   Parent Country Nationals (PCNs) :

PCNs are managers who are citizens of the country where the MNC is headquartered. In fact, sometimes the term 'headquarter's nationals' is also used.

These managers are commonly called expatriates or, simply, exports, which refers to those who live and work away from their parent country. There are a variety of reasons for using PCNs. The most common reason was to start up operations. MNCs prefer to have their own people launch a new venture. The second most common reason was that the parent country people had the necessary managerial and technical expertise (Tung, 1982).

1.4.2 Host Country Nationals (HCNs) :

HCNs are local managers who are hired by the MNC. There are many reasons for hiring them at the lower or middle-level ranks. Many countries require the MNC to hire local talent as part of opening their markets to MNCs. For example, in Brazil, two-thirds of employees in any foreign subsidiary have to be Brazilian nationals. In India too, before approving joint venture agreements, the government restricts the number of expatriates to be employed, primarily to limit the foreign exchange outflow and to prepare Indian nationals to undertake the responsibility at a future time. PCNs fill usually top positions, but this is not always the case. For example, companies following the multi-domestic philosophy or polycentric approach would select most positions, including top ones, from the host country, but usually after starting the operations.

1.4.3 Third Country Nationals (TCNs) :

TCNs are managers who are citizens of countries other than the one in which the MNC is headquartered or the one in which it is assigned to work by the MNC. Tung (1991) found that the two most important reasons that American MNCs use third country nationals are :

1.   These people have the necessary expertise,

2.   They were judged to be the best ones for the job.

Japanese companies usually do not hire TCNs, while Phatak (1995) found that US companies usually prefer TCNs from Europe. TCNs are found typically in large MNCs in advanced stages of growth. A number of advantages are cited for using them. One is that their salary package is usually less than that of a PCN. The knowledge of local language, like English was the reason for choosing British managers by US companies in former British colonies like India, Jamaica, West Indies and Kenya.

Today, a new breed of multi-lingual, multi-experienced 'global-managers' has emerged. These new managers are part of a growing group of international executives who can manage across borders and do not fit the traditional third country mould. With a unified Europe, and North America and Asia becoming business hubs, such global managers are in great demand.

1.5 MODEL OF INTERNATIONAL HRM :

An article by Morgan (1986) on the development of international HRM presents a model of international HRM that consists of three dimensions :

1.   The three broad human resource activities: Procurement, allocation, and utilisation.

2. The three national or country categories involved in international HRM activities: The host-country where a subsidiary may be located, the home (parent) country where the firm is headquartered, and 'other' countries that may be the source of labour or finance.

3. The three types of employees of an international firm: Host-country Nationals (HCNs), Parent-country Nationals (PCNs), and Third-country Nationals (TCNs).

Figure 1.1: Model of International HRM
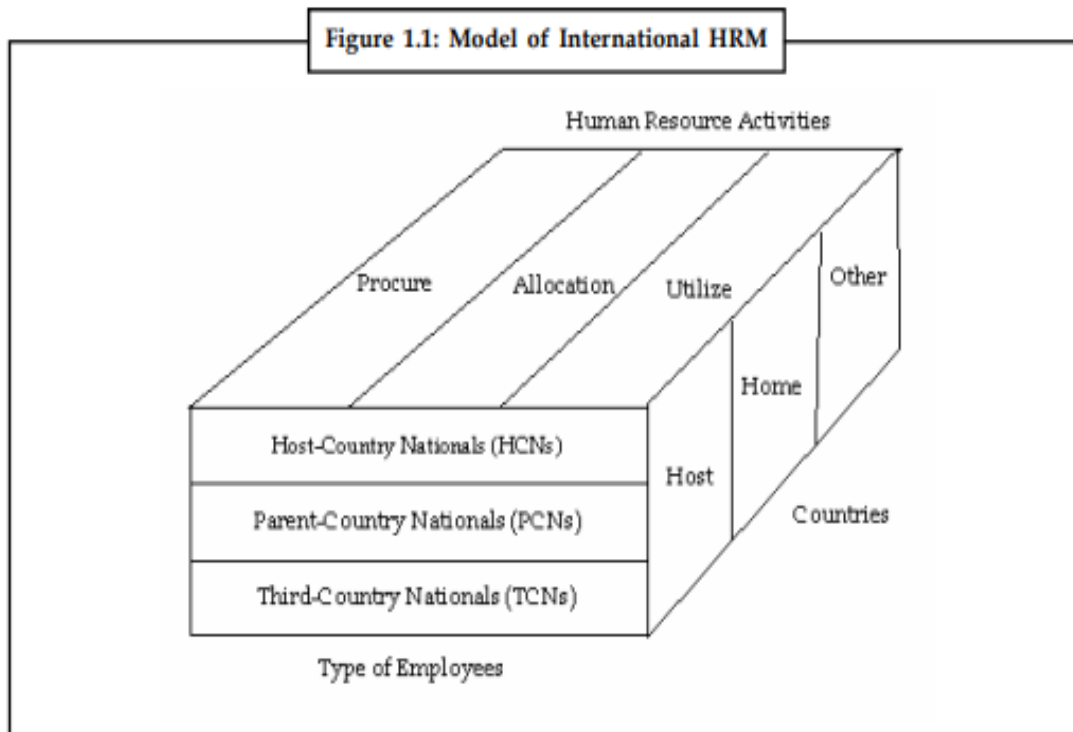
Source: Adapted from P. V. Morgan, 1986, International Human Resource Management

1.6 APPROACHES TO IHRM :

The HRM uses four terms to describe MNCs which approaches to managing and staffing their subsidiaries : ethnocentric, polycentric, regiocentric, and geocentric. Perlmutter identified and claimed that. It was possible to identify among international executive three primary attitudes ethnocentric, polycentric, and geocentric–toward building a multinational enterprise, based on top management assumptions upon which key product, functional, an geographical decisions were made. A fourth attitude, regiocentric was added later.

The four approaches are :

1. Ethnocentric :

Few foreign subsidiaries have any autonomy; strategic decisions are made at headquarters. Key positions at the domestic and foreign operations are held by management personnel of headquarters. These subsidiaries are managed by expatriates from the home country (PCNs).

2. Polycentric :

The MNC treats each subsidiary as a distinct national entity with some decision making autonomy. Subsidiaries are usually managed by local nationals (HCNs) who are seldom promoted to positions at headquarters. PCNs are rarely transferred to foreign subsidiary operations.

3. Geocentric :

The MNC takes a worldwide approach to its operations, recognising that each part (subsidiaries and headquarters) makes a unique contribution with its unique competence. Nationality is ignored in favour of ability.

Example : The Chief Executive Officer of the Swedish Multinationals Electrolux claims that within this global company there is no tradition to hire managing directors from Sweden, or locally, but to find the person best suited for the job.

4. Regiocentric :

Reflects the geographic strategy and structure of the multinational. It utilizes a wider pool of managers but in a limited way. Personnel may move outside their countries but only within the particular geographic region. Regional managers may not be promoted to headquarter positions but enjoy a degree of regional autonomy in decision-making.

1.7 REASONS FOR THE EMERGENCE OF IHRM :

The reasons to go global are as follows :

Growth :

Is there anybody who would not accept that every company in the world, and equally its shareholders, management and staff wish to grow, to increase sales, and if possible profits, in order to secure their long-term future? The widely accepted hypothesis is after all valid that a company which does not achieve growth and stability, is – like a plant – condemned to death in the long-term, or to being pushed aside by increasingly powerful competitors. The opportunities for growth within the national territory are however often limited – although less often than is frequently believed.

The "No. 1 Position": Size by itself, measured in absolute numbers, is usually not a key objective for the "multinationals", since for such companies whether they generate sales of 30, 50 or a 100 thousand million $ is usually not material in achieving a dominant position in the world market. Relative size is more important, i.e. the value of sales compared with those of competitors, and in particular the objective of being the largest and strongest in the own core market, even perhaps being "world market leader". For example, Jürgen Schrempp, CEO of DaimlerChrysler is clearly pursuing with all the force at his disposal the objective of achieving the "No. 1 position in the World Car Manufacturers' League" (Scholtys 2002).

The objective of being or aiming to be No. 1 in the market is totally logical, considering that in the market economy, as in sport, the motto "winner takes it all" definitely applies: Once a product, brand or a company has become market leader, and not just in its

home country, but also in foreign markets, or even worldwide, then its position is self-reinforcing, because that sends a message to consumers, that it must be the best product, since "so many consumers throughout the world cannot be wrong". This is because even in the economy as a whole "everybody loves the winner". In selecting the countries to which the business is to be expanded, there is also the objective of being the First In, reflecting the dictum: "second place is first loser".

Following on from the fall of the Wall, the expansion into the previously closed-off countries of Eastern Europe has once again demonstrated that the company which enters a market first achieves what are called "first mover advantages" and becomes a synonym for a whole range of products, which makes it possible for long-term market leadership to be achieved.

The multiplication of superior concepts: After all the criticism which is directed against the companies which have a world-wide business and high-profile brands (such as COCA-COLA, Mc DONALD'S, GAP, STARBUCKS etc.) and which are present almost everywhere, it is usually overlooked that such companies make use of superior marketing concepts, which were initially exclusively employed over many years in their home markets, and then adapted and continuously developed for use in foreign countries. The consequence is: Consumers simply prefer to buy the products of such manufacturers rather than those of other mostly local producers, either because the products of the former are better in quality, or cheaper, or more innovative, or are just in fact "more trendy", or quite simply: because they come from the West (mostly from the USA). It is therefore almost impossible to be successful with some undifferentiated and possibly qualitatively inferior product against the competition which exists in virtually all business areas in all countries of the world. Additionally, experience has shown that it is more difficult to operate and succeed in foreign markets than in familiar home markets. If companies wish to be successful throughout the world, they and their products must be "top fit". The characteristic of being superior cannot though apply to all parameters within a company's range of products and services. Nobody can be "champion in all sports" simultaneously. The "secret formula" for internationally successful companies is on the contrary to focus on a small number of key competencies, which may include:

Unbeatable low prices and low-cost production processes, such as with IKEA or HENNES & MAURITZ

Unique products (such as with Mc Donald's or KELLOGG'S)

Superior and really extensive advertising or promotion activities, such as with COCACOLA or WRIGLEY'S

An extremely cheap distribution concept (as with ALDI)

Innovative technology (as from MICROSOFT or SONY) which can be applied everywhere in the world or "simply" superior marketing know-how (such as with UNILEVER or NESTLÉ), which makes it easier to enter new markets quickly and successfully.

Increasing "Shareholder Value" :

The expansion of company's commercial activities to an increasing number of the world's countries not only increases the company's value due to its increasing sales and size. But at the same time, such expansion requires large financial resources, which actually increase exponentially, since one can assume that priority will be given to markets which can be exploited fastest, most easily and most cheaply while those markets that are regarded as complicated or risky will only be "occupied" later. It is therefore not surprising that most "global players" are quoted on the stock market, and that most of them are traded on Wall Street since through bank credits, loans or other expensive sources of finance, such expansion programs could not be undertaken. Therefore, unless financing is done from internal sources, generated from retained profits, financing via the stock market forms an integral and essential part of the expansion strategies of global companies. The disadvantage of this relatively inexpensive resource for funding expansion, however, is that the stock market has to be involved.

This means that it (in other words, the analysts, the shareholders, the media etc.) has to be Notes convinced of the benefits of the global expansion strategy concerned, and that it regards the associated risks as less than the associated benefits which should flow from the investment. If however at some point in time the risks involved in international expansion, perhaps as a result of political strife or war, grow significantly, then it can be this same Wall Street which slams the door on the further globalization of companies quoted on the stock market. The continuous increase of "shareholder value" (that means the increase of the share price plus paid out dividends) together with limited risks therefore form for such companies an essential "condition sine qua non".

Another way of generating the means required to provide or to limit the resources needed for world-wide expansion is the use of franchise and license models, as is done for instance by Mc Donald's or COCA-COLA : In such cases, the necessary "hardware", i.e. the physical investments (sales outlets, central warehouses, plants etc.) are usually financed by the franchisee or licensee, while the provider of the brand or the concept only supplies the "software", i.e. the formulas, the advertising concepts, the production know-how etc. where the capital requirements are usually modest.

1.8 ORGANIZATIONAL DYNAMICS AND IHRM :

Organizational dynamics is a cross-discipline concept that is concerned with organizational behavior. It deals with how people behave in a workplace in group settings. It has been proven that the behavior of employees varies when in group settings and private gatherings.

Organizational dynamics describes the pattern of movement over a more extended period through the interactions between people of the organization. It is also about the corporate strategies and its purpose over time and how the managers execute strategy and manage an organization.

Organizational dynamics is defined as an integrative process that should be

implemented during a comprehensive approach so that the organizational development process can manage to cooperate and participate effectively.

Importance of organizational dynamics :

The concept of organizational dynamics is used to help organizations in sectors like business, education, healthcare, finance, retail, manufacturing, etc. It is a comprehensive approach that is very effective in building as well as strengthening the viable relationship between employees and the employers, suppliers, and independent operators and franchisees and franchisors.

Organizational dynamics can be described as a unique approach of a business organization that has a hand in motivating and inspiring high-performance cultures. It emphasizes the people first.

Organizational dynamics are being used in most industries and at almost all levels of business enterprises to solve operational challenges, bring employees together and improve relationships. Organizational dynamics helps to

Assess existing business culture :

Develop strategic business solutions to drive success and boost interpersonal relationships.

Resolve conflicts with respect and empathy :

Create and establish best practices, processes, system standards, and quality control that are performance-driven and goal focused.

1.9 SUMMARY :

Globalization is the process of international integration arising from the interchange advances in transportation and telecommunications infrastructure, including the rise of world views, products, ideas, and other aspects of culture.

The Internet, are major factors in globalization, generating further interdependence of HRM refers to those activities undertaken by an organization to utilize its human resources economic and cultural activities. Even those organizations who consider themselves immune to transactions across effectively. Globalization is the process of international integration arising from the interchange geographical boundaries is connected to the wider network globally. Of world views, products, ideas, and other aspects of culture. Advances in transportation and telecommunications infrastructure, including the rise of Notes the Internet, are major factors in globalization, generating further interdependence of HRM refers to those activities undertaken by an organization to utilize its human resources economic and cultural activities. Even those organizations who consider themselves immune to transactions across effectively. Globalization involves the diffusion of ideas, practices and technologies. It is something geographical boundaries are connected to the wider network globally. Key drivers of globalization are market drivers, costs drivers, technology drivers,λmore than internationalization and universalisation government drivers and competitive drivers.

1.10 KEY WORDS :

Economic Globalization :

Economic globalisation is the process of increasing economic integration between countries, leading to the emergence of a global marketplace or a single world market.

Ethnocentric :

Approach in which key positions at the domestic and foreign operations are held by management personnel of headquarters.

Free Trade Zones (FTZ) : A

FTZ is an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities.

Global Information System :

A global information system is a data communication network that crosses national boundaries to access and process data in order to achieve corporate goals and strategic objectives.

ISO :

The International Organization for Standardization is an international standard-setting body promulgates worldwide proprietary, industrial, and commercial standards. It was founded on February 23, 1947, the organization.

Online Community :

It is a virtual community that exists online and whose members enable its existence through taking part in membership ritual.

Parent Country Nationals (PCNs) :

PCNs are managers who are citizens of the country where the MNC is headquartered.

Third Country Nationals (TCNs) :

TCNs are managers who are citizens of countries other than the one in which the MNC is headquartered or the one in which it is assigned to work by the MNC.

1.11 SELF ASSESSMENT QUESTIONS :

1.   Explain in detail the Global Human Resource Management.

2.   Write short notes on :

    (a)   Types of International Employees.

    (b)   Objectives of Global HRM.

3.   Describe the Model of International HRM.

4.   Explain the Ethnocentric, regiocentric, and Polycentric approaches to IHRM.

5.   What do you understand by the drivers of the globalization?

1.12 SUGGESTED READINGS :

1.   International Human Resource Management (2008),PL Rao Excel Books.

2.   International Human Resource Management (2013) Miguel Martine Lucio, Sage Publications.

3.   Managing Global Work force (2013), Charles M.Vance, Eastern Economy Edition.

4.   International Human Resource Management (2018) Annamalo & Murugan, Discover Publishing House**.**

Dr. Nagaraju Battu

DIFFERENCES BETWEEN DOMESTIC HRM & IHRM

Learning objectives :

- ✓ To study the differences between domestic and international HRM

- ✓ To understand the HR activities

- ✓ To learn the workforce mix of PCNs and HCNs varies

- ✓ To elaborate the changing context of IHRM

Structure of the lesson :

2.1 INTRODUCTION :

Before we can offer a definition of international HRM, we should first define the general field of HRM. Typically, HRM refers to those activities undertaken by an organization to effectively utilize its human resources. These activities would include at least

the following :

- ▪ Human resource planning.

- ▪ Staffing (recruitment, selection and placement).

- ▪ Performance management.

- ▪ Training and development.

- ▪ Compensation (remuneration) and benefits.

- ▪ Industrial relations

The question is of course which activities change when HRM goes international? A model developed by Morgan is helpful in terms of answering this question. He presents IHRM on three dimensions :

The broad human resource activities of procurement, allocation and utilization. (These three broad activities can be easily expanded into the six HR activities listed above.)

The national or country categories involved in international HRM activities :

- ✦ the host-country where a subsidiary may be located;

- ✦ the parent-country where the firm is headquartered; and

- ✦ other' countries that may be the source of labor, finance and other inputs.

The three categories of employees of an international firm :

- ✓ Host-country nationals (HCNs);

- ✓ Parent-country nationals (PCNs); and

- ✓ Third-country nationals (TCNs).

Thus, for example, the US multinational IBM employs British citizens in its British operations(HCNs), often sends US citizens (PCNs) to Asia-Pacific countries on assignment, and may sendsome of its Singaporean employees on an assignment to its Chinese operations (as TCNs). Thenationality of the employee is a major factor in determining the person's 'category', which inturn is frequently a major driver of the employee's compensation and employment contract.

Morgan defines international HRM as the interplay among the three dimensions of human resource activities, type of employees and countries of operation. We can see that in broad terms IHRM involves the same activities as domestic HRM (e.g. procurement refers to HR planning and staffing). However, domestic HRM is involved with employees within only one national boundary. Increasingly, domestic HRM is taking on some of the flavor of IHRM as it deals more and more with a multicultural workforce. Thus, some of the current focus of domestic HRM on issues of managing workforce diversity may prove to be beneficial to the practice of IHRM. However, it must be remembered that the way in which diversity is managed within a single national, legal and cultural context may not necessarily transfer to a multinational context without some modification.

2.2   WHAT IS AN EXPATRIATE :

One obvious difference between domestic and international HRM is that staff are moved across national boundaries into various roles within the international firm's foreign operations – these employees have traditionally been called 'expatriates'. An expatriate is an employee who is working and temporarily residing in a foreign country. Many firms prefer to call such employees 'international assignees'. While it is clear in the literature that PCNs are always expatriates, it is often overlooked that TCNs are also expatriates, as are HCNs who are transferred into parent country operations outside their own home country. Figure 2.2 illustrates how all three categories may become expatriates.

The term inpatriate has come into vogue to signify the transfer of subsidiary staff into the parent country (headquarters) operations. For many managers this term has added a level of confusion surrounding the definition of an expatriate. The (US) Society for Human Resource Management defines an inpatriate as a 'foreign manager in the US'. Thus, an inpatriate is also defined as an expatriate. A further indication of the confusion created by the use of the term 'inpatriate' is that some writers in international management define all HCN employees as expatriates. HCNs only become 'inpatriates' when they are transferred into the parent-country operations as expatriates, as illustrated in Figure 2.2.

Given the substantial amount of jargon in IHRM, it is questionable as to whether the term 'inpatriate' adds enough value to justify its use. However, some firms now use the term 'inpatriate' for all staff transferred into a country. For clarity, we will use the term expatriate throughout this text to refer to employees who are transferred out of their home base/parent country into some other area of the firm's international operations. In doing so, we recognize that there is increasing diversity with regard to what constitutes international work, the type and length of international assignments and the increasingly strategic role of the HR function in many organizations, which in turn influences the nature of some expatriate roles.

FIGURE 1.2   International assignments create expatriates
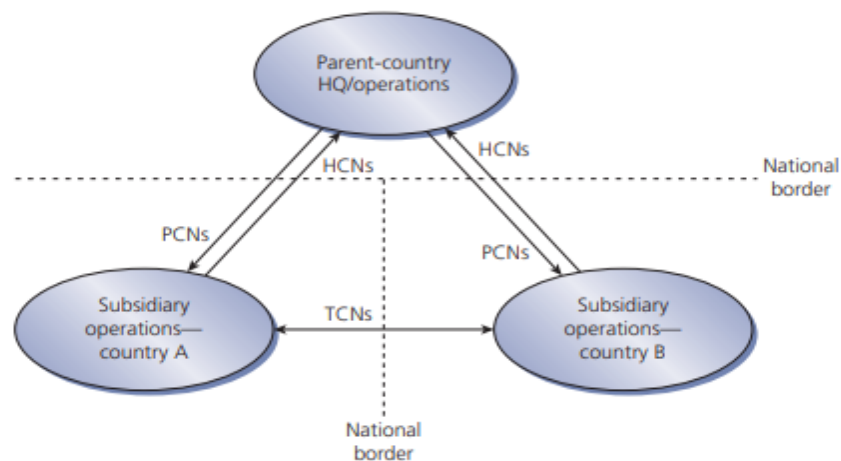
Stahl, Björkman and Morris have recognized this expansion in the scope of the field of IHRM in their *Handbook of Research in International Human Resource Management* where they define the field of IHRM as follows:

Figure 2.1 International assignments and create expatriates

We define the field of IHRM broadly to cover all issues related to managing the global workforce and its contribution to firm outcomes. Hence, our definition of IHRM covers a wide range of human resource issues facing MNEs in different parts of their organizations. Additionally we include comparative analyses of HRM in different countries.

We believe that this broad definition accurately captures the expanding scope of the IHRM field.

2.3 DIFFERENCES BETWEEN DOMESTIC AND INTERNATIONAL HRM :

In our view, the complexity of operating in different countries and employing different national categories of workers is a key variable that differentiates domestic and international HRM, rather than any major differences between the HRM activities performed. Dowling argues that the complexity of international HR can be attributed to six factors :

1. More HR activities.

2. The need for a broader perspective.

3. More involvement in employees' personal lives.

4. Changes in emphasis as the workforce mix of expatriates and locals varies.

5. Risk exposure.

6. Broader external influences.

Each of these factors is now discussed in detail to illustrate its characteristics.

2.4 MORE HR ACTIVITIES :

To operate in an international environment, a human resources department must engage in a number of activities that would not be necessary in a domestic environment. Examples of required international activities are :

1. international taxation;

2. international relocation and orientation;

3. administrative services for expatriates;

4. host-government relations;

5. language translation services.

Expatriates are subject to international taxation, and often have both domestic (i.e. their home-country) and host-country tax liabilities. Therefore, tax equalization policies must be designed to ensure that there is no tax incentive or disincentive associated with any particular international assignment. The administration of tax equalization policies is complicated by the wide variations in tax laws across host countries and by the possible time lag between the completion of an expatriate assignment and the settlement of domestic and international tax liabilities. Inrecognition of these difficulties, many MNEs retain the services of a major accounting firm for international taxation advice.

International relocation and orientation involves the following activities :

- arranging for pre-departure training;

- providing immigration and travel details;

- providing housing, shopping, medical care, recreation and schooling information;

- finalizing compensation details such as delivery of salary overseas, determination of various overseas allowances and taxation treatment.

The issues involved when expatriates return to their home-country (repatriation) are covered in. Many of these factors may be a source of anxiety for the expatriate and require considerable time and attention to successfully resolve potential problems – certainly much more time than would be involved in a domestic transfer / relocation such as London to Glasgow, Frankfurt to Munich, New York to Dallas, Sydney to Melbourne, or Beijing to Shanghai.

An MNE also needs to provide administrative services for expatriates in the host countries in which it operates. Providing these services can often be a time–consuming and complex activity because policies and procedures are not always clear–cut and may conflict with local conditions.

Ethical questions can arise when a practice that is legal and accepted in the host country may beat best unethical and at worst illegal in the home country. For example, a situation may arise in which a host country requires an AIDS test for a work permit for an employee whose parent firm is headquartered in the USA, where employment–related AIDS testing remains a controversial issue. How does the corporate HR manager deal with the potential expatriate employee who refuses to meet this requirement for an AIDS test and the overseas affiliate which needs the services of a specialist expatriate from headquarters? These issues add to the complexity of providing administrative services to expatriates.

Host–government relations represent an important activity for the HR department in an MNE, particularly in developing countries where work permits and other important certificates are often more easily obtained when a personal relationship exists between the relevant government officials and multinational managers. Maintaining such relationships helps resolve potential problems that can be caused by ambiguous eligibility and / or compliance criteria for documentation such as work permits. US–based multinationals, however, must be careful in how they deal with relevant government officials, as payment or payment–in–kind, such as dinners and gifts, may violate the US Foreign Corrupt Practices Act (FCPA). Provision of language translation services for internal and external correspondence is an additional international activity for the HR department. Morgan 12 notes that if the HR department is the major user of language translation services, the role of this translation group is often expanded to provide translation services to all foreign operation departments within the MNE.

2.5 THE NEED FOR A BROADER PERSPECTIVE :

Human resource managers working in a domestic environment generally administer programs for a single national group of employees who are covered by a uniform compensation policyand taxed by one national government. Because HR managers working in an international environment face the problem of designing and administering programs for more than one nationalgroup of employees (e.g. PCN, HCN and TCN employees who may work together in Zurich at the European regional headquarters of a US–based multinational), they need to take a broaderview of issues. For example, a broader, more international perspective on expatriate benefits would endorse the view that all expatriate employees, regardless of nationality should receive a foreign service or expatriate premium when working in a foreign location. Yet some MNEs that routinely pay such premiums to their PCN employees on overseas assignment (even if the assignments are to desirable locations) are reluctant to pay premiums to foreign nationals assigned to the home country of the firm. Such a policy confirms the traditional perception of many HCN and TCN employees that PCN employees (particularly US and European PCNs) are given preferential treatment. Complex equity issues arise when employees of various nationalities work together, and the resolution of these issues remains one of the major challenges in the IHRM field.

More involvement in employees' personal lives :

A greater degree of involvement in employees' personal lives is necessary for the selection, training and effective management of both PCN and TCN employees. The HR department or HR professional needs to ensure that the expatriate employee understands housing arrangements, health care, and all aspects of the compensation package provided for the assignment (cost of living allowances, premiums, taxes and so on). Many MNEs have an 'International HR Services' section that coordinates administration of the above programs and provides services for PCNs and TCNs, such as handling their banking, investments, home rental while on assignment, coordinating home visits and final repatriation.

In the domestic setting, the HR department's involvement with an employee's family is relatively limited and may not extend beyond providing employee benefits such as health insurance coverage for eligible family members and some assistance in relocating the employee and family members. In the international setting, however, the HR department must be much more involved in order to provide the level of support required and will need to know more about the employee's personal life. For example, some national governments require the presentation of a marriage certificate before granting a visa for an accompanying spouse. Thus, marital status could become an aspect of the selection process, regardless of the best intentions of the MNE to avoid using a potentially discriminatory selection criterion. In such a situation, the HR department should advise all candidates being considered for the position of the host country's visa requirements with regard to marital status and allow candidates to decide whether they wish to remain in the selection process. Apart from providing suitable housing and schooling in the assignment location, the HR department may also need to assist children placed at boarding schools in the home country – a situation that is less frequently encountered in the United Statesbut relatively common in many other

countries, particularly former British colonies such as Singapore, Hong Kong, Australia and New Zealand and in Europe. In more remote or less hospitable assignment locations, the HR department may be required to develop, and even run, recreational programs. For a domestic assignment, most of these matters either would not arise or would be seen as the responsibility of the employee rather than the HR department. In a sense the 'psychological contract' is now between the MNE and the entire immediate family of the international assignee.

2.6 CHANGES IN EMPHASIS AS THE WORKFORCE MIXOF PCNS AND HCNS VARIES :

As foreign operations mature, the emphasis put on various human resource activities change. For example, as the need for PCNs and TCNs declines and more trained locals become available, resources previously allocated to areas such as expatriate taxation, relocation and orientation are transferred to activities such as local staff selection, training and management development. The latter activity may require the establishment of a program to bring high potential local staff to corporate headquarters for developmental assignments. The need to change emphasis in HR operations as a foreign subsidiary matures is clearly a factor that would broaden the responsibilities of local HR activities such as human resource planning, staffing, training and development and compensation.

2.6.1 Risk exposure :

Frequently the human and financial consequences of failure in the international arena are more severe than in domestic business. For example, while we discuss the topic in more detail in, expatriate failure (the premature return of an expatriate from an international assignment) and under–performance while on international assignment is a potentially high–cost problem for MNEs. The direct costs of failure (salary, training costs, travel costs and relocation expenses) to the parent firm may be as high as three times the domestic salary plus relocation expenses, depending on currency exchange rates and location of assignments. Indirect costs such as loss of foreign market share and damage to key host–country relationships may be considerable.

Another aspect of risk exposure that is relevant to IHRM is terrorism, particularly since the World Trade Center attack in New York in 2001. Most major MNEs must now consider political risk and terrorism when planning international meetings and assignments and spending on protection against terrorism is increasing. Terrorism has also clearly had an effect on the way in which employees assess potential international assignment locations. The HR department may also need to devise emergency evacuation procedures for highly volatile assignment locations subject to political or terrorist violence, or major epidemic or pandemic crises such as severe acute respiratory syndrome (SARS) and avian influenza. For a comprehensive analysis of the impact of SARS on human resource management in the Hong Kong service sector, see Lee and Warner.

2.6.2 Broader external influences :

The major external factors that influence IHRM are the type of government, the state

of the economy and the generally accepted practices of doing business in each of the various host countries in which MNEs operate. A host government can, for example, dictate hiring procedures, as has been the case until recently in Malaysia. The Malaysian Government during the 1970s introduced a requirement that foreign firms comply with an extensive set of affirmative action rules designed to provide additional employment opportunities for the indigenous Malayethnic group who constitute the majority of the population of Malaysia but tend to be under represented in business and professional employment groups relative to Chinese Malaysians and Indian Malaysians. Various statistics showing employment levels of indigenous Malays throughout the firm (particularly at middle and senior management levels) were required to beforwarded to the relevant government department. Many foreign investors regarded these requirements as a major reason for complaints about bureaucracy and inflexibility with regard to perceived affirmative action appointments at management level in Malaysia and these complaints are one significant reason for the subsequent revision of these requirements.

In developed countries, labor is more expensive and better organized than in less-developed countries and governments require compliance with guidelines on issues such as labor relations, taxation and health and safety. These factors shape the activities of the subsidiary HR manager to a considerable extent. In less–developed countries, labor tends to be cheaper, less organized and government regulation is less pervasive, so these factors take less time. The subsidiary HR manager must spend more time, however, learning and interpreting the local ways of doing business and the general code of conduct regarding activities such as gift giving and employment of family members. It is also likely that the subsidiary HR manager will become more involved in administering benefits either provided or financed by the MNE, such as housing, education and other facilities not readily available in the local economy.

2.6.3 Variables That Moderate Differences Between Domestic and International HRM :

Earlier in this chapter it was argued that the complexity involved in operating in different countries and employing different national categories of employees is a key variable that differentiates domestic and international HRM, rather than any major differences between the HRM activities performed. Many firms from advanced economies with limited experience in international business under estimate the complexities involved in successful international operations–particularly in emerging economies. There is considerable evidence to suggest that business failures in the international arena are often linked to poor management of human resources. In addition to complexity, there are four other variables that moderate (that is, either diminish or accentuate) differences between domestic and international HRM. These four additional moderators are :

- ✓ The cultural environment.

- ✓ The industry (or industries) with which the multinational is primarily involved.

- ✓ The extent of reliance of the multinational on its home–country domestic market.

- ✓ The attitudes of senior management.

Together with the complexity involved in operating in different countries, these five variables constitute a model that explains the differences between domestic and international HRM(see Figure 2.3)

FIGURE 1.3 A model of the variables that moderate differences between domestic and international HRM
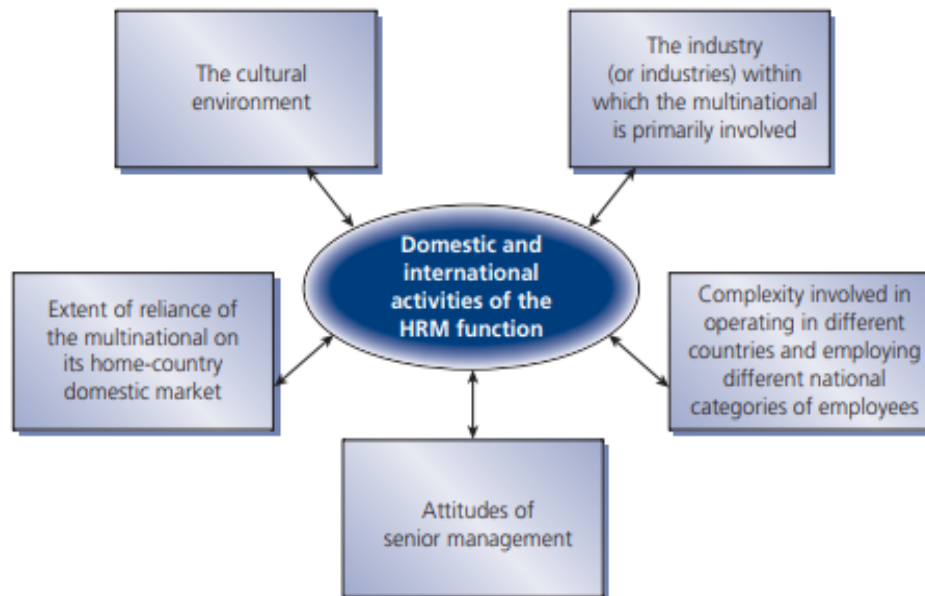
Source: P. J. Dowling, 'Completing the Puzzle: Issues in the Development of the Field of International Human Resource

Figure 2.2 : A Model of the variables that moderate differences between domestic and International HRM

2.6.4 The Cultural Environment :

The Cultural Context of IHRM, we cover the concept of culture in considerable detail, so our comments in this introductory chapter are necessarily brief. There are many definitions of culture, but the term is usually used to describe a shaping process over time. This process generates relative stability, reflecting a shared knowledge structure that attenuates (i.e. reduces) variability in values, behavioral norms and patterns of behavior. An important characteristic of culture is that it is so subtle a process that one is not always conscious of its relationship to values, attitudes and behaviors. One usually has to be confronted with a different culture in order to fully appreciate this effect. Anyone traveling abroad, either as a tourist or on business, experiences situations that demonstrate cultural differences in language, food, dress, hygiene and attitude to time. While the traveler can perceive these differences as novel, evenenjoyable, for people required to live and work in a new country, such differences can prove difficult. They may experience culture shock – a phenomenon experienced by people who move across cultures. The new environment requires many adjustments in a relatively short period of time, challenging people's frames of reference to such an extent that their sense of self, especially in terms of nationality, comes into question. People, in effect, experience a shock reaction tonew cultural experiences that cause

psychological disorientation because they misunderstand or do not recognize important cues. Culture shock can lead to negative feelings about the host country and its people and a longing to return home.

Because international business involves the interaction and movement of people across national boundaries, an appreciation of cultural differences and when these differences are important is essential. Research into these aspects has assisted in furthering our understanding of the cultural environment as an important variable that moderates differences between domestic and international HRM. However, while cross–cultural and comparative research attempts to explore and explain similarities and differences, there are problems associated with such research. A major problem is that there is little agreement on either an exact definition of cultureor on the operationalization of this concept. For many researchers, culture has become an omnibus variable, representing a range of social, historic, economic and political factors that are invoked post hoc to explain similarity or dissimilarity in the results of a study. As Bhagat and McQuaid have noted, 'Culture has often served simply as a synonym for nation without any further conceptual grounding. In effect, national differences found in the characteristics of organizations or their members have been interpreted as cultural differences. To reduce these difficulties, culture needs to be defined a priori rather than post hoc and it should not be assumed that national differences necessarily represent cultural differences.

Another issue in cross–cultural research concerns the emic–etic distinction. Emic refers to culture–specific aspects of concepts or behavior, and etic refers to culture–common aspects.

These terms have been borrowed from linguistics : a phonemic system documents meaningful sounds specific to a given language, and a phonetic system organizes all sounds that have meaning in any language. Both the emic and etic approaches are legitimate research orientations. A major problem may arise, however, if a researcher imposes an etic approach (that is, assumes universality across cultures) when there is little or no evidence for doing so. A well–known example of an imposed etic approach is the 'convergence hypothesis' that dominated much of US and European management research in the 1950s and 1960s. This approach was based on two key assumptions. The first assumption was that there were principles of sound management that held regardless of national environments. Thus, the existence of local or national practices that deviated from these principles simply indicated a need to change these local practices. The second assumption was that the universality of sound management practices wouldlead to societies becoming more and more alike in the future. Given that the USA was the leading industrial economy at that time, the point of convergence was the US model.

To use Kuhn's terminology, the convergence hypothesis became an established paradigm that many researchers found difficult to give up, despite a growing body of evidence supporting a divergence hypothesis. In an important early paper that reviewed the convergence / divergence debate, Child made the point that there is evidence for both convergence and divergence. The majority of the convergence studies, however, focus on macro level variables (for example organizational structure and technology used by MNEs

across cultures) and the majority of the divergence studies focus on microlevel variables (for example, the behavior of people within firms). His conclusion was that although firms in different countries are becoming more alike (an etic or convergence approach), the behavior of individuals within these firms is maintaining its cultural specificity (an emic or divergence approach). As noted above, both emic and etic approaches are legitimate research orientations, but methodological difficulties may arise if the distinction between these two approaches is ignored or if unwarranted universality assumptions are made. The debate on assumptions of universality is not limited to the literature in international management as this issue has also become a topic of debate in the field of international relations and strategic studies where international management research is cited. For a review of the convergence / divergence question, see Brewster. Cultural awareness and the role of the international HR manager.

Despite the methodological concerns about cross–cultural research, it is now generally recognized that culturally insensitive attitudes and behaviors stemming from ignorance or from misguided beliefs ('my way is best', or 'what works at home will work here') are not only inappropriate but can all–too–often contribute to international business failure. Therefore, anawareness of cultural differences is essential for the HR manager at corporate headquarters as well as in the host location. Activities such as hiring, promoting, rewarding and dismissal willbe determined by the legal context and practices of the host country and usually are based on avalue system relevant to that country's culture. A firm may decide to head up a new overseas operation with an expatriate general manager but appoint as the HR department manager a local, a person who is familiar with the host country's HR practices. This particular policy approach can assist in avoiding problems but can still lead to dilemmas for senior managers.

For example, in a number of developing countries (Indonesia is one such example) local managers are expected (i.e. there is a perceived obligation) to employ their extended family if they are in a position to do so. This may lead to a situation where people are hired who does not possess the required technical competence. While this could be seen as a successful example of adapting to local expectations and customs, from a Western perspective this practice would be seen as nepotism, a negative practice which is not in the best interests of the enterprise because the best people have not been hired for the job.

Coping with cultural differences, and recognizing how and when these differences are relevant, is a constant challenge for international firms. Helping to prepare assignees and their families for working and living in a new cultural environment has become a key activity for HR departments in those MNEs that appreciate (or have been forced, through experience, to appreciate) the impact that the cultural environment can have on staff performance and well–being.

2.6.5 Industry Type :

Porter suggests that the industry (or industries if the firm is a conglomerate) in which a MNEis involved is of considerable importance because patterns of international competition vary widely from one industry to another. At one end of the continuum of

international competition is the multi domestic industry, one in which competition in each country is essentially independent of competition in other countries. Traditional examples include retailing, distribution and insurance. At the other end of the continuum is the global industry, one in which a firm's competitive position in one country is significantly influenced by its position in other countries.

Examples include commercial aircraft, semiconductors and copiers. The key distinction between a multi–domestic industry and a global industry is described by Porter as follows :

The global industry is not merely a collection of domestic industries but a series of linked domestic industries in which the rivals compete against each other on a truly worldwide basis ... In a multi domestic industry, then, international strategy collapses to a series of domestic strategies. The issues that are uniquely international revolve around how to do business abroad, how to select good countries in which to compete (or assess country risk), and mechanisms to achieve the one–time transfer of know–how. These are questions that are relatively well developed in the literature. In a global industry, however, managing international activities like a portfolio will undermine the possibility of achieving competitive advantage. In a global industry, a firm must in some way integrate its activities on a worldwide basis to capture the linkages among countries.

The role of the HRM function in multi domestic and global industries can be analyzed using Porter's value–chain model. In Porter's model, HRM is seen as one of four support activities for the five primary activities of the firm. Since human resources are involved in each of the primary and support activities, the HRM function is seen as cutting across the entire value chain of a firm. If the firm is in a multidomestic industry, the role of the HR department will most likely be more domestic in structure and orientation. At times there may be considerable demand for international services from the HRM function (for example, when a new plant or office is established in a foreign location and the need for expatriate employees arises), but these activities would not be pivotal – indeed, many of these services may be provided via consultants and / or temporary employees. The main role for the HRM function would be to support the primary activities of the firm in each domestic market to achieve a competitive advantage through either cost / efficiency or product / service differentiation.

If the multinational is in a global industry, however, the 'imperative for coordination' described by Porter would require a HRM function structured to deliver the international support required by the primary activities of the MNE. The need to develop coordination raises complex problems for any multinational. As Laurent has noted :

In order to build, maintain, and develop their corporate identity, multinational organizations need to strive for consistency in their ways of managing people on a worldwide basis. Yet, and in order to be effective locally, they also need to adapt those ways to the specific cultural requirements of different societies. While the global nature of the business may call for increased consistency, the variety of cultural environments may be calling for differentiation.

Laurent proposes that a truly international conception of human resource management would require the following steps :

1. An explicit recognition by the parent organization that its own peculiar ways of managing human resources reflect some assumptions and values of its home culture.

2. An explicit recognition by the parent organization that its peculiar ways are neither universally better nor worse than others but are different and likely to exhibit strengths and weaknesses, particularly abroad.

3. An explicit recognition by the parent organization that its foreign subsidiaries may have other preferred ways of managing people that are neither intrinsically better nor worse, but could possibly be more effective locally.

4. A willingness from headquarters to not only acknowledge cultural differences, but also to take active steps in order to make them discussable and therefore usable.

5. The building of a genuine belief by all parties involved that more creative and effective ways of managing people could be developed as a result of cross–cultural learning. In offering this proposal, Laurent acknowledges that these are difficult steps that few firms have taken. They have more to do with states of mind and mindsets than with behavior. As such, these processes can only be facilitated and this may represent a primary mission for executives in charge of international human resource management.

Implicit in Laurent's analysis is the idea that by taking the steps he describes, a MNE attempting to implement a global strategy via coordination of activities would be better able to work through the difficulties and complex trade–offs inherent in such a strategy. Increasingly, multinationals are taking a more strategic approach to the role of HRM and are using staff transfersand training programs to assist in coordination of activities.

2.7 EXTENT OF RELIANCE OF THE MULTINATIONAL ON ITS HOME-COUNTRY DOMESTIC MARKET :

A pervasive but often ignored factor that influences the behavior of MNEs and resultant HR practices is the extent of reliance of the multinational on its home–country domestic market. When for example, we look through lists of very large firms (such as those that appear inFortune and other business magazines), it is frequently assumed that a global market perspective would be dominant in the firm's culture and thinking. However, size is not the only key variable when looking at a multinational – the extent of reliance of the multinational on its home–country domestic market is also very important. In fact, for many firms, a small home market is one of the key drivers for seeking new international markets. The United Nations Conference on Trade and Development (UNCTAD) in its annual survey of foreign direct investment calculates what it refers to as an index of transnationality, which is an average of ratios of foreign assets to total assets; foreign sales to total sales; and foreign employment to total employment.

Attitudes of Senior Management to International Operations :

The point made by Laurent earlier in this chapter that some of the changes required to truly internationalize the HR function 'have more to do with states of mind and mindsets than with behaviors' illustrates the importance of a final variable that may moderate differences between international and domestic HRM: the attitudes of senior management to international operations. It is likely that if senior management does not have a strong international orientation, the importance of international operations may be under emphasized (or possibly even ignored) interms of corporate goals and objectives. In such situations, managers may tend to focus on domestic issues and minimize differences between international and domestic environments.
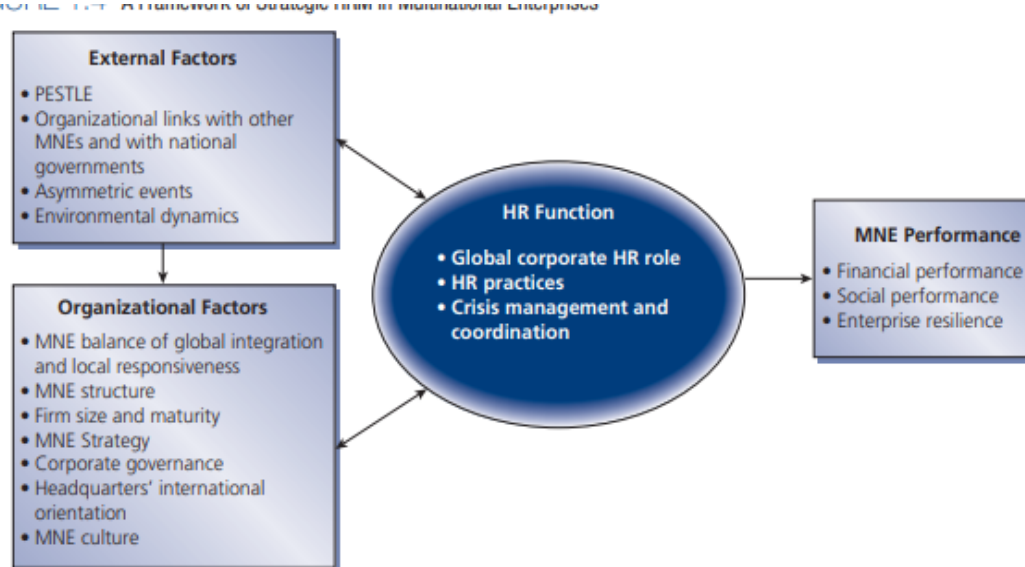
Not surprisingly, senior managers with little international experience (and successful careersbuilt on domestic experience) may assume that there is a great deal of transferability between domestic and international HRM practices. This failure to recognize differences in managing human resources in foreign environments – regardless of whether it is because of ethnocentrism, inadequate information, or a lack of international perspective – frequently results in major difficulties in international operations. The challenge for the corporate HR manager who wishes to contribute to the internationalization of their firm is to work with top management in fostering the desired 'global mindset'. This goal requires, of course, a HR manager who is able to think globally and to formulate and implement HR policies that facilitate the development of globally oriented staff.

Applying a Strategic View of IHRM :

Our discussion up to this point has suggested that a broader or more strategic view of IHRM is required to better explain the complexity and challenges of managing IHRM issues. An example of a theoretical frame work that has been derived from a strategic approach using a multiple methodological approach is that of De Cieri and Dowling. Their framework is depicted in Figure 2.4 and assumes that MNEs operate in the context of worldwide conditions, including the influences of industry (global or multidomestic) and regional, national, and local markets that include geopolitical, legal, socio–cultural, and economic characteristics.

In strategic management practice, the acronym of PEST, which represents the Political, Economic, Sociological and Technological acronym and analytical tool, has often been used to describe the macro–environmental factors that may influence MNEs. Recent additions to this set of factorsinclude Legal and Environmental / ecological elements (PESTLE). Although this analytical tool is popular in consulting and management practice, it appears to have received little academic research attention or usage. De Cieri and Dowling suggest that exploration and adoption of the PESTLE acronym in academic work would help to bring research and practitioner approaches closer together. They propose that external factors have direct influence on both internal / organization factors and SHRM strategy and practices and that external factors have a direct influence on MNE performance. A large body of research has explored these relationships; of particular note is the Cranet study of European HRM practices in different national contexts. There are streams of research within

the international business field investigating the implications of each of the external factors for MNEs; for example, there is an extensive body of research that has explored the implications of national culture. Further, research in countries undergoing significant economic transformation, such as China, indicates that the human resource function has been substantially influenced by the changing external environment.

External Factors
- PESTLE
- Organizational links with other MNEs and with national governments
- Asymmetric events
- Environmental dynamics

Organizational Factors
- MNE balance of global integration and local responsiveness
- MNE structure
- Firm size and maturity
- MNE Strategy
- Corporate governance
- Headquarters' international orientation
- MNE culture

HR Function
- Global corporate HR role
- HR practices
- Crisis management and coordination

MNE Performance
- Financial performance
- Social performance
- Enterprise resilience

Source: De Cieri, H. & Dowling, P. J. 2012. 'Strategic human resource management in multinational enterprises: Developments and directions', In G. Stahl, I. Björkman and S. Morris (eds) *Handbook of Research in International Human Resource Management*, 2nd Ed. (Cheltenham, UK: Edward Elgar. Reproduced with permission from Helen De Cieri and Peter J. Dowling.

Figure 2.3 : A frame work of Strategic HRM in Multinational Enterprise

Other external factors include organizational links with other MNEs and national governments, asymmetric events and environmental dynamics. Organizational networks and alliancesmay be complex relationship webs based upon personal relationships and may include parentcountry managers and employees, host country managers and employees and host country governments. Central to network management is an emphasis on human resources that recognizesthat knowledge, power, and perceived trust worthiness are often person–specific rather than organization–specific.

In the 21st century, the context for international business also reflects heightened concerns about security, risk and volatility in global markets. In particular, terrorism has been identified by several IB scholars as an important concern. In relatively common usage since the unexpected terrorist attacks in New York in September 2001, asymmetric events have been described by Gray as threats that our political, strategic, and military cultures regard as unusual. In terms of trying to define asymmetric events, Gray notes that they tend to be :

Unmatched in our arsenal of capabilities and plans. Such events may or may not appear truly dangerous, but they will certainly look different from war as we have known it.

Highly leveraged against our particular assets – military and probably more often, civil.

Designed not only to secure leverage against our assets, but also intended to work around, offset, and negate what in other contexts are our strengths.

Difficult to respond to in a discriminate and proportionate manner :

Thus, asymmetric events are not only difficult to deal with when they occur, they are difficult to plan for, recognize and respond to with specific planning processes and training. The influence of external factors on MNEs involves complex environmental dynamics. As Andreadis has noted, MNEs operate in a dynamic environment and that environment should be taken into consideration when evaluating organizational effectiveness.

Organizational (or 'internal') factors have been a major focus of international business and strategic HRM research because these factors are suggested to hold implications not only forareas such as HRM, but also for overall MNE performance. The first organizational factor listed in Figure 3.4 is MNE balance of global integration and local responsiveness. The act of balancing global integration and local responsiveness refers to the extent to which MNEs canmaximize local responsiveness and also integrate units into a cohesive, global organization. To achieve this balance is no easy task because as Morris et al. have noted, replication of HR practices across subsidiaries may be difficult due to the influences of external factors in the local context. With regard to MNE structure, the organizational structure literature has shown the importance not only of the structure of international operations, but also of mechanisms of co-ordination and mode of entry into foreign markets, for HRM in MNEs.

With regard to Firm size and maturity, for both the MNE overall and for each subsidiary, the size and maturity of the organization (or unit) may influence decisions with respect to HRM. For example, staffing decisions and demand for HR practices such as training will be influenced by the skill and experience mix within the firm and / or subsidiary (Lawler et al., 2010). In terms of MNE strategy, as has been well–documented, organizational strategy in the MNE has substantial implications for HRM in MNEs. With the Organizational Factor Corporate governance, issues related to corporate governance and incorporation of ethical principles and values into international business practice have become increasingly important for MNE managers, particularly in light of cases of corporate wrong doing. HR managers may be required to play important roles in corporate governance, such as the design, implementation and maintenance of corporate codes of conduct.

Following on from the pioneering work of Perlmutter, the organizational factor Headquarters' international orientation recognizes that international orientation of the MNE's headquarters will involve aspects such as the extent and diversity of experience in managing international operations. These elements are well–established as important factors for HRM in MNEs, as is the factor Organizational culture which is defined by Kidger as the'sense of common identify and purpose across the whole organization', and is the final organizational factor included in the framework. For MNEs seeking a high level of global integration, this factor may facilitate the development of a global mindset and enhance firm performance. Overall, the model offered by De Cieri and Dowling aims to assist in the cross fertilization of ideas to further develop theory and empirical research in strategic HRM in multinational firms.

2.8   THE CHANGING CONTEXT OF IHRM :

As Figures 3.3 and 3.4 show, international firms compete in an increasingly complex environment where the level of challenge of doing business can be highly variable. Internationalizing firms rely on having the right people to manage and operate their businesses and good IHRM practices that are appropriate to the context in which they occur. This combination of appropriate people and HR practices has been a constant critical success factor in international business ventures. For example, the following quotation is taken from a detailed case study of a large US multinational, where the authors, Desatnick and Bennett concluded :

The primary causes of failure in multinational ventures stem from a lack of understanding of the essential differences in managing human resources, at all levels, in foreign environments. Certain management philosophies and techniques have proved successful in the domestic environment : their application in a foreign environment too often leads to frustration, failure and under achievement.

These 'human' considerations are as important as the financial and marketing criteria upon which so many decisions to undertake multinational ventures depend.

This study was reported in 1978 but many international managers today would concur with the sentiments expressed in this quote. In this book we attempt to demonstrate some ways in which an appreciation of the international dimensions of HRM can assist in this process.

2.9   SUMMARY :

The purpose of this chapter has been to provide an overview of the emerging field of international HRM. We did this by :

Defining key terms in IHRM and considering several definitions of IHRM.

Introducing the historically significant issue of expatriate assignment management and reviewing theevolution of these assignments to reflect the increasing diversity with regard to what constitutes international work and the type and length of international assignments.

Out lining the differences between domestic and international human resource management by looking at six factors which differentiate international and domestic HR (more HR activities; the need for a broader perspective; more involvement in employees' personal lives; changes in emphasis as the workforce mix of expatriates and locals varies; risk exposure; and more external influences) and detailing a model which summarizes the variables that moderate these differences.

Presenting the complexity of IHRM, the increasing potential for challenges to existing IHRM practices and current models, and an increasing awareness of the wide number of choices within IHRM practices due to increased transparency and faster and more detailed diffusion of these practices across organizational units and firms.

We concluded that the complexity involved in operating in different countries and

employing different national categories of employees is a key variable differentiating domestic and international HRM, rather than any major differences between the HR activities performed. We also discussed four other variables that moderate differences between domestic and international

HRM : the cultural environment; the industry (or industries) with which the multinational is primarily involved; the extent of reliance of the multinational on its home–country domestic market; and the attitudes of senior management.

Finally, we discussed a model of strategic HRM in multinational enterprises whichdraws together a number of external factors and organizational factors that impact on IHRM strategy and practice and in turn on MNE goals.

In our discussion of the international dimensions of HRM in this book, we shall be drawing on the HRM literature. Subsequent chapters will examine the cultural and organizational contexts of IHRM; IHRM in cross–border mergers and acquisitions, international alliances and SMEs; staffing, recruitment and selection; international performance management; training, development and careers; international compensation; international industrial relations and the global institutional context; and trends and future challenges in IHRM. We will provide comparative data on HRM practices in different countries, but our major emphasis is on the international dimensions of HRM confronting MNEs, whether large or small, when facing the challenge of managing people globally.

2.10 KEY WORDS :

Expatriate :

An expatriate is an employee who is working and temporarily residing in a foreign country.

Parent Country National (PCN) :

When a company of a country recruits employee from its own country is known as PCN. Here the country is called parent country.

Host Country National (HCN) :

When a company of a country runs their business in another country and recruits employees from that country then it is known as HCN. Here the second country is the host country.

Third Country National (TCN) :

They are the citizens of one country employed by a company from another country who worked in a third country

2.11 SELF ASSESSMENT QUESTIONS :

1. What are the main similarities and differences between domestic and international HRM?

2. Define these terms International HRM, PCN, HCN and TCN.

3. Discuss two HR activities in which a multinational firm must engage that would not be required in a domestic environment.

4. Why is a greater degree of involvement in employees' personal lives inevitable in many international HRM activities?

5. Discuss at least two of the variables that moderate differences between domestic and international HR practices.

2.12 SUGGESTED READINGS :

1. International Human Resource Management (2008), PL Rao Excel Books.

2. International Human Resource Management (2013) Miguel Martine Lucio, Sage Publications.

3. Managing Global Work force (2013), Charles M.Vance, Eastern Economy Edition.

4. International Human Resource Management (2018) Annamalo & Murugan, Discover Publishing House**.**

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LESSON – 3

ROLE OF CULTURE IN IHRM

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Learning objectives :

- ✓ To define culture and its determinants
- ✓ To discuss the issues in organisational culture
- ✓ To recognise cultural diversity at work
- ✓ To explain how to maintain motivation and communication across culture

Structure of the lesson :

3.1 INTRODUCTION :

The interaction of learning within a society produces a body of socially transmitted behavior which is perpetrated beyond the individual life-span. The term 'culture' is applied to such systems of acquired and transmitted behaviour. Organisational culture is different from world cultures in terms of the languages, beliefs, and foods, which are the source of our

identity. This environment not only influences inhabitants and customers, but also the people who work there. So, the organisational culture has to be tuned along with the readjustments that are needed to be made for enhancing the human resource management function in international context.

3.2 BASICS OF CULTURE :

Culture is defined as that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities acquired by man as a member of society. It is the collective programming of the mind which distinguishes the members of one human group from another. So, culture includes systems of values and values are among the building blocks of culture. Important cultural elements are values, norms, attitudes, folkways and customs. Values form the bedrock of a culture. They provide the context within which a society's norms are established and justified. They may include a society's attitude towards such concepts as individual freedom, democracy, truth, justice, honesty, loyalty, social obligations, collective responsibility, marriage, sex and so on.

1. Norms are further subdivided into two major categories: Folkways and Mores. While folkways define the way people are expected to behave. People who violate folkways are thought of as eccentric or ill-mannered.

2. Mores are norms that are seen as central to the functioning of a society and to its social life. Mores include such factors as indictments against theft, adultery, etc. For example eating cow's meat is viewed critically by Hindu Society. While drinking is common in the US, the same is prohibited in Saudi Arabia and is a punishable offence.

3. Cultural traits are unique aspects of individual cultures. A cultural trait is a custom such as men opening the door for women, a gesture such as namaste.

4. Enculturation is the process of acquiring cultural traits. One acquires cultural traits naturally within one's culture.

5. Diffusion is the process through which cultures change. Each society borrows cultural traits from others, particularly if a newly learned trait seems better than a traditional one.

    Some sectors of society resist such changes. This is known as cultural lag.

6. If contacts between societies are prolonged, acculturation may occur. Traits that have been borrowed over the short-term become permanently adopted. New customs, devices, gestures and ideas irrevocably change both interacting cultures.

7. Assimilation occurs when immigrants or other newcomers adopt the culture of the society in which they have settled.

8. When people leave their own culture to enter another, they must grapple with unfamiliar and unpredictable events, relationships and objects. Some of these may cause a phenomenon called culture shock.

Organisational culture is defined as the specific collection of values and norms that are shared by people and groups in an organisation and that control the way they interact with each other and with stakeholders outside the organisation. Today due the globalisation and liberalization of the economy, organisations are evolving into global corporates and thus, they have to develop the global strategies and management approach in order to succeed in the foreign markets.

Corporate culture is the total sum of the values, customs, traditions and meanings that make a company unique. Corporate culture is often called "the character of an organisation" since it embodies the vision of the company's founders. The values of a corporate culture influence the ethical standards within a corporation, as well as managerial behaviour. Organisational culture is not the same as corporate culture. It is wider and deeper concepts.

Organisation culture is shaped not only by technologies and markets, but also by the cultural preferences of leader and employees. Some international companies have European, Asian, American and Middle-Eastern subsidiaries, which would be unrecognisable as the same company except for the logo and reporting procedures.

National culture influences the extent to which leadership; teams and employee activities are socially valued and supported. The impact of national culture on organisation cultures by distinguishing corporate culture along two axes: equality, hierarchy and orientation to the person – the task, which gives broadly four types of cultures depending on how they think and learn, how they change and how they motivate, reward and resolve conflicts. The four types can be described as follows :

(1)   the family;

(2)   the Eiffel Tower;

(3)   the guided missile; and

(4)   the incubator.

Each of these types of corporate culture is the 'ideal' type. In practice, the types are mixed or overlaid with on culture dominating.

3.3 DETERMINANTS OF CULTURE :

National cultures are constantly evolving. Factors that influence the evolving pattern are prevailing political and economic systems, the social structure of society, dominant religion, language, aesthetics and education.

1. Social Structure :

A society's social structure refers to its basic social organisation. Social structure (for study of cultural differences) consists of :

(a)   The degree to which the basic unit of social organisation is the individual, as opposed to the group. An individual is the basic unit in western societies and therefore individual achievement gets primacy. In most other societies the group is the basic unit of social structure.

(b) It is the degree of relative importance to individualism or group that differentiates different cultures.

2. Language :

This is an essential element which distinguishes one culture from another. In business communication, the translation from one language to another can result in inaccuracies. The same language may have different terms for the same word.

Example :

In American English, petrol (British English) is called gasoline and biscuits as cookies. An Indian generally would not understand the word 'downtown' frequently used by Americans for city centre.

In the UK, a person with a large office is important in the hierarchy. But in Japan, many high executives share offices. Much business communication also depends on non-verbal messages. Body language differs from culture to culture.

Example : Nodding of the head one way may mean 'yes' in one culture and 'no' in another.

3. Education :

Learning and sharing cultural values happens through the education system.

4. Aesthetics :

The aesthetics of a culture refers to designs, forms, colours, shapes, sounds – things conveying the concept of beauty and good taste. These are reflected in the music, art, and architecture of a society. The aesthetics of a culture can affect a firm's marketing strategy, diplomacy and management of human resources

3.4 REASONS FOR THE CONVERGENCE OF THE CULTURES :

Factors that have encouraged the convergence of certain aspects of culture among nations are :

1. Improvements in transport and communications and a huge increase in the number of people visiting foreign countries.

2. Globalisation of media resulting in the same newspaper and magazine article appearing in all nations.

3. Similarities in the tastes and consumption patterns of young people.

4. The operation of multinationals across the world, supplying standardised products and frequently using undifferentiated marketing strategies.

5. A seemingly worldwide increase in consumers' willingness to accept fresh ideas and try new products.

6. Adoption of similar technologies in several countries, creating common work experiences and working methods.

3.5 IMPORTANCE OF CULTURAL SENSITIVITY TO ORGANISATIONS :

Global organisations need to know about cultural differences among nations in order to be able to :

1. Communicate effectively with customers, suppliers, business associates and partners in other countries and with foreign employees,

2. Conduct negotiations and understand the nuances of the beginning postures of the other parties into a negotiation,

3. Predict trends in social behaviour likely to affect the firm's foreign operations,

4. Understand ethical standards and concepts of social responsibility in various countries,

5. Predict how cultural differences will affect consumer reactions to advertisements and other promotions,

6. Foster relationships between union confederations and employee associations requiring cultural empathy,

7. Understand local government policies and influence it for business promotion,

8. Conduct efficient meetings in different countries and encourage employee participation in management,

9. Understand how people interpret market research and other information.

3.6 ISSUES IN ORGANISATIONAL CULTURES :

In order to analyse the influence of different national cultures and finding a common dimension of culture across the countries, G. Hofstede gathered the data from the surveys and found that :

1. Work-related values are not universal;

2. Underlying values persist when a multinational company tries to impose the same norms on all its foreign interests;

3. Local values determine how the headquarters' regulations are interpreted;

4. By implication, a multinational that tries to insist on uniformity is in danger of creating morale problems and inefficiencies.

The four well-known dimensions that Hofstede examines were :

3.6.1 Power Distance :

It is 'the extent to which less powerful members of organisations accept that power is distributed unequally.' It is the distance between individuals at different levels of hierarchy. Countries in which people blindly obey the orders of their superiors have high power distance.

Power distance is greatest in Malaysia and least in Austria and Israel. The proportion of supervisory personnel is less and the workforce will often consist of highly qualified people in high power distance countries. The salary gap between levels will be higher.

Power will be reflected through status symbols. Status will be highly valued and have higher motivational appeal. Management is more by control than by participation.

3.6.2 Uncertainty Avoidance :

It is 'the extent to which people feel threatened by ambiguous situations, and have created beliefs and institutions that try to avoid those. High uncertainty-oriented nations tend to have a high need for security and a strong belief in experts and their knowledge.

Example :

It includes Germany, Spain and Japan. Members in these countries are more anxiety-prone and have high job stress. Employees place high premium on job security, career planning, and health insurance and retirement benefits.

Countries with low uncertainty culture are more entrepreneurial, innovative and exhibit less emotional resistance to change.

Example :

Swedes suppress emotions and see shyness as a positive trait and talkativeness as a negative one. In business, they opt for the rational than the emotional course. Swedes are avid appliers of new technology and are ruthless in scrapping what is old inefficient.

Trade unions, which find a place on the board, will accept job cuts if they find rational arguments in favour. Organisations encourage personnel to use their own initiative and to assume responsibility for their actions. Sweden, the US and UK are examples of countries with low uncertainty avoidance.

3.6.3 Individualism :

Individualism is the tendency of people to look after themselves and their immediate families only. These cultural differences are measured on a bipolar continuum with individualism on one end and collectivism on other. Collectivism is the tendency of the people to belong to groups and to look after each other in exchange for loyalty.

Example :

Americans, high on individualist score, readily go to court against authority and each other to claim their rights. Individual decisions are valued over group decisions and individuals have the right to differ from majority opinion.

Wealthy countries have higher individualism scores, and poorer countries have higher collectivism scores. Countries like the USA, Canada, Denmark, and Sweden have high individualism and higher gross product. Japan is an exception. Conversely, countries like Pakistan, or those in Latin America have low individualism (high collectivism) and low gross national product.

3.6.4 Masculinity :

Masculinity is defined as a situation in which the dominant values in society are success, money, and things. Countries like Japan, with a high masculinity index, place great importance on earnings, recognition, advancement and challenge.

Countries like Norway, with a low masculinity index, tend to place great importance on cooperation, friendly atmosphere, and employment security. The workplace has a cordial atmosphere and managers give more credit to employees and freedom to act. Cultures with a high masculinity index like Germany and Spain favour large scale enterprises. Economic growth is more important than conservation of environment.

Cultures with high femininity tend to favour small-scale enterprises and place great importance on conservation of environment.

These cultural dimensions can be used for explaining the differences between various countries and how countries can be described in terms of pairs of dimensions. Americans have very high individualism and relatively low power distance. They prefer to do things for themselves and are not upset when others have more power than they do. Americans are taught that everyone is equal, so individuals having important titles or jobs do not overly impress them. Australians, Canadians, British, New Zealanders have the same basic values and therefore can be clubbed together in one cluster.

The integration of these cultural factors into a two-dimensional plot – the uncertainty avoidance index against power distance – explains culture's effect on behaviour. A number of dimensions are at work and sometimes they do not all move in the anticipated direction. Also certain other factors affecting the organisational culture are:

1. Universalism – particularism :

In some cultures people see rules and regulations as apply universally to everyone, regardless of who they are. In cultures which are more particularist, people see relationships as more important than applying rules that are same for everyone.

There is an inclination to apply the rules according to friendship and kinship relations. This has implications for recruitment and promotion policies in organisations in some Asian countries, which may be at variance with practices in countries such as the United States and Britain.

2. Achievement – ascription :

Status is accorded to people on the basis of what they achieve in their jobs and their lives (achievement) or who they are and where they come from such as family background, their school or some other prior factor (ascription). This may influence recruitment and promotion policies which may be at variance with practices in some (but not all) Western cultures. On some measures Austria, Belgium, Spain and Italy are more ascription oriented, and Denmark, Britain and Sweden more achievement oriented.

3. Locus of control :

People tend to believe that what happens to them in life is their own doing (internal locus of control), or they have no or little control over what happens to them (external locus of control), the causes of which are external to them.

3.7 CULTURAL DIVERSITY AT WORK PLACE :

Cultural differences affect the organisational work behaviour within the countries and cultures. The knowledge of the culture helps in understanding the beliefs, attitude and orientation of the employees and workers from the countries internationally. Pattern of behaviour and thinking is different in different countries due to different cultures. This is a major issue which organization faces in cross-border deals.

Table 3.1 Kluckhohn – Strodthbeck's Criterion for Comparing Culture

Table 2.1: Kluckhohn-Strodthbeck's Criterion for Comparing Culture

S. No.	Orientation of People	Pattern of Behaviour or Thinking
1.	What is the nature of people?	Good, evil or mixed
2.	What is a person's relationship to nature?	Dominant, harmony, or subjugation
3.	What is a person's relationship to individual?	Hierarchical, collectivist or others
4.	What is the modality of human activity?	Doing, being or containing
5.	What is the temporal focus of human activity?	Future, present or past

The task of management is to change organisational structures, management practices and the human resource practices including organisational culture to allow individual potential to be released. This corresponds to assumptions that human nature is basically evil and therefore people at work require controlling. Team-building is easy and delegation of authority is more common in countries where the orientation to people and organizations is good. Democracy is a preferred way of life in such countries.

1. In countries where the orientation to human nature is 'Mixed', there is more use of middleman and business contracts are made more specific. In such countries legal profession is a flourishing trade.

Example :

America and India are nations with mixed orientation while Saudi Arabia and Japan are countries where orientation towards human nature is good. Americans are optimistic about other people's motivations and capacities.

2. The second orientation is about relationship to nature, which relates to locus of control – whether it is internal or external.

Example :

Americans with an orientation for being 'dominant' believe that man can control

nature and spend huge amounts on space research, weather control, and biotech, etc. In such dominant countries, conflict is not disapproved of and differences in views are encouraged.

The eastern countries, with an orientation towards harmony, believe that there should be peace between man and nature. There is also a desire to avoid conflicts. Countries in the Middle East and India, with an orientation for subjugation, believe that destiny and God control everything. People believe in astrology and assign all success and failure to God.

3. The third orientation – a person's relationship to others – is about the importance of hierarchy or respect for seniority on the basis of age, sex, familial or official position. Example :

Countries like Thailand, China and Indonesia have more follower-ship than leadership.

4. The fourth orientation is the modality of human activity. When it is towards doing as in the case of Americans, Germans or the English, self-identification is achieved through action and performance. Where the orientation is towards 'being', people are more philosophical and spend time in abstract thinking.

Example :

In countries of the Middle East, and in India and China, status in life is derived from birth, age, sex, family, and social connections more than through one's achievement.

Where the orientation is towards 'containing' (Japan, Thailand), focus is on self-control. Striving is for balance between feelings and doing.

5. The fifth orientation is the temporal focus of human activity. When it is 'future' oriented (e.g. US), the belief is that a better future can be planned and controlled. On the other hand, if the orientation is towards the 'past', like in India, Pakistan, and the Middle East, people base their decisions on lesson learned from the past.

6. Concept of space in the minds of people: How much people value privacy is the other orientation. If people think space is 'public' then a notice that a meeting is in progress is interrupted as a request to stay out. In countries like China, space is more 'public' when doors are closed. People suspect something fishy. In the western countries, space is more 'private'. People like their chambers and always knock before entering others' rooms. So, these orientation patterns play a great role in determining and comparing the cultures across nations and help the organisation in designing their strategies accordingly

3.8 MOTIVATION AND COMMUNICATION ACROSS CULTURE :

Motivation of the employees is most important task which the managers and the organizations have to perform. Motivated employee results in the increased productivity and creates personal effectiveness at the workplace. For motivating the employees internationally, MNCs must be aware about the cultural norms and regulations. There are basically two motivation theories that are used to analyse the behaviour of the individual. They are individual dimensions focusing on the individual aspect, while other is team dimension which focuses on the team behavior and motivation of the employees.

Maslow has identified the five basic needs of the human beings which form a hierarchy. They are physiological, safety, social, esteem and self-actualisation needs. Unless the lower order needs are met, the higher order needs cannot be satisfies. In countries like Greece and Japan, need motives of the employees are strong than the self-actualisation needs. In these countries, employees consider the lifetime employment and job-security more important than having a challenging job. In countries like Pakistan, people tend to stress more on the social needs. But for an American, self-actualisation needs are more important than social needs.

Hertzberg's two-factor motivational theory states that hygiene factors which are associated with the environment surrounding the job only de-motivate the employees. The motivators associated with the job itself have the power to motivate the people. But culture again is an influencing factor that motivates and demotivates the employees' behaviour. The highly individualistic, productive-oriented American culture focus is on the job enrichment while in

Sweden and Norway, quality of the working life is given more emphasis which acts as a motivating factor for the employees

In many countries, the most important goal concerned is the achievement, environment conditions and employment conditions like pay and work hours, but there are certain cultural differences across different countries which the organisation must consider before designing the motivational policies:

1. English speaking countries ranked higher on individual achievement and lower on the desire for security.

2. French-speaking countries gave importance to security and to challenging work.

3. Germany ranked highest on security and fringe benefits and highest on "getting ahead."

4. Japan ranked second highest on challenge and lowest on autonomy with a strong emphasis on good working conditions and a friendly working environment.

The above motivational theories are used in designing the jobs, developing the work centrality and rewards policy by the MNCs internationally. In Japan, quality of work life is more emphasized with structured task, low individualism, and strong emphasis on the security. Individual-risk taking is not encouraged and they are used to take orders from their superiors. Emphasis is laid out on money and material symbols of success. They heavily depend on money as a motivator to motivate them and get the work done.

Work centrality focuses on the significance which individual places on the work in comparison to other areas of personal interest such as family, religion, etc. it varies from culture to culture. Job satisfaction is most important factor motivating the employees across cultures. Americans are more satisfied with the job challenges, team work opportunities and ability to make a significant contribution at workplace.

Reward system also motivates the individual. But to standardise the reward policy of the MNCs is the biggest challenge especially when the firm functions internationally. Americans prefer to work for organisations that provide merit-based rewards for the individuals, while Japan and Korean workers prefer to group performance for rewards. Global firms pay more attention to the workplace relationships which create motivating climate.

The employees are motivated by the structures they work in. Management are using the teams to enrich and motivate the productive work. Japanese work on this concept and developed a small team of volunteers from the same work area who met on a regular basis in order to identify, analyse and resolve production problems. It increases the efficiency. Team performance and team bonus is more important for them than the individual performance as in case of Americans.

So, when the MNCs transcends the national borders, they have to take care of the cultural factors in motivating the employees by designing the compensation and reward policies based on the cultural aspects of the countries.

3.9 CROSS-CULTURE COMMUNICATION :

Communication is the exchange of meaning; it is my attempt to let you know what I mean. Communication includes any behaviour that another human being perceives and interprets. Communication includes sending both verbal messages (words) and nonverbal messages (tone of voice, facial expression, behaviour, and physical setting). It includes consciously sent messages as well as messages that the sender is totally unaware of sending.

Cross-cultural communication occurs when a person from one culture sends a message to a person from another culture. Cross-cultural miscommunication occurs when the person from the second culture does not receive the sender's intended message. The greater the difference between the sender's and the receiver's culture, the greater the chance for cross-cultural mis-communication.

Example :

A Japanese businessman wants to tell his Norwegian client that he is uninterested in a particular sale. To be polite, the Japanese says, "That will be very difficult." The Norwegian interprets the statement to mean that there are still unresolved problems, not that the deal is off. He responds by asking how his company can help solve the problems. The Japanese, believing he has sent the message that there will be no sale, is mystified by the response.

Communication does not necessarily result in understanding. Cross-cultural communication continually involves misunderstanding caused by mis-perception, misinterpretation, and misevaluation. When the sender of a message comes from one culture and the receiver from another, the chances of accurately transmitting a message are low. Foreigners see, interpret, and evaluate things differently, and consequently act upon them differently. In approaching cross-cultural situations, one should therefore assume difference until similarity is proven. It is also important to recognise that all behaviour makes sense through the eyes of the person behaving and that logic and rationale are culturally relative.

Moving from one country to another, whether for business or pleasure, almost invariably causes culture shock and the severity of the shock is directly proportional to the cultural distance between two countries. The process of intercultural communication is complex as it involves the communication between individuals from the different cultures. The societies are divided on the basis of the culture internationally. High-context and low-context cultures have to be taken in account by the organisation to design their policies internationally.

Members of high-context culture, depend heavily on the external environment, situation and non-verbal behaviour in creating and interpreting communication. Members of this culture group learn to interpret the covert clues when they communicate – so much meaning is conveyed indirectly. They believe in long-term relationships.

In low-context cultures like the US, Sweden, and Britain, the environment is less important, and non-verbal behaviour is often ignored. Therefore, communication has to be explicit and clear. People pay more attention to words than to gestures. People publish their experiences, which are widely read and commented upon. In the East, experiences are not published but passed on to close individuals. Relationships between individuals are of relatively short duration, and deep personal bonds with others are not greatly valued.

Example :

High-context cultures are Arabia, Chinese, and Japanese, where indirect style of communication and ability to understand the same is highly valued. U.S., Sweden and Britain are low-context culture countries where non-verbal behaviour is ignored.

The model is useful in understanding how members of different cultures develop business relationships, negotiate with insiders and outsiders and implement contracts.

Based on the cultures, the countries are also divided which is most relevant to the business communication and negotiations. The four dimensions are :

1. Dealers Focus vs. Relationship Focus :

Deal-focused (DF) cultures are task oriented, while relationship-focused (RF) cultures are more people oriented. Conflicts arise when DF managers are marketers communicate or negotiate with RF business persons. RF managers find their DF counterparts pushy, aggressive and offensively blunt. On the other hand, DF managers often consider their RF counterparts dilatory, vague and inscrutable.

Example :

In DF cultures found in northern Europe, North America, Australia and New Zealand; people are relatively open to doing business with strangers. This means, in DF countries one can straight away talk business and get down to facts. The US is highly DF because Americans are raised in a mobile immigrant society.

In RF countries, people get things done through relatives, friends, business contacts and connections. The Chinese call this 'guanxi,' means 'pull' or 'clout'. This is the only way to break bureaucratic delays. One has to have patience dealing with RF companies.

Example :

Volkswagen took nine years to negotiate with the government of China on the opening of an automobile factory. It took twelve years for Mc Donald to work out an agreement with the Soviet government to open the first Golden Arches restaurant in Russia.

DF cultures value direct, frank, straightforward language while their counterparts often favour an indirect, subtle, roundabout style. They give priority to maintaining harmony and a void saying anything that may cause embarrassment or loss of face to the other party.

Example :

Japanese never say the word 'no' but use other means to indicate the same.

2. Formal vs. Informal :

Formal cultures tend to be organised in step hierarchies, which reflect major differences in status and power. Informal cultures value more egalitarian organisations with smaller differences in status and power. These contrasting values cause conflict at the conference table. Formal way of addressing people and maintaining proper protocol are ways of showing respect to people.

Example :

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3.10 SUMMARY :

Culture plays a very important role in the success or the failure of the international assignments. Culture varies across different nations due to varied beliefs of the people. There are various societies that are being formed based on the cross-cultural beliefs.

In collectivistic societies, people are born into and protected by extended families, to which they give loyalty. In individualist societies, people look after themselves and the immediate nuclear family. In a masculine society, values are based on material success, money and possessions. Men are expected to be assertive and ambitious, and women tender and concerned with relationships.

The 'feminine' society has values of caring for others and preservation rather than progress. People and good relationships are more important than money and things.

3.11 KEYWORDS :

Culture :

It is a set of the set of shared attitudes, values, goals, and practices that characterizes an institution, organisation or group.

Collectivism :

It measures the degree to which social bonds are formed between the individuals.

Individualism :

It measures the extent to which the individuals in the country consider themselves Notes as distant entities.

Intercultural communication :

It is the process of communication between the individuals from different cultures.

Leadership :

Ability of an individual to influence the group to achieve the goal.

Motivation :

Process of increasing the individuals' performance to attain his goals.

Particularism :

It believes that unique circumstances and relationships re more important considerations in determining what are good and right.

Universalism :

When people believe what is true and good can be discovered, applied and defined.

3.12 SELF ASSESSMENT QUESTIONS :

1. Analyse the impact of the culture on the motivation of the employee's internationally.

2. Being the HR of the international company, can you throw light on the importance of multi cultural teams in the success of the international assignment?

3. Examine the critical issues that may affect the implementation of organisational cultures.

4. "Effective corporate communication is the key to the managers' success internationally". Justify giving examples.

5. Examine the role and relevance of culture in international HRM.

3.13 SUGGESTED READINGS :

1. International Human Resource Management (2008), PL Rao Excel Books.

2. International Human Resource Management (2013) Miguel Martine Lucio, Sage Publications.

3. Managing Global Work force (2013), Charles M.Vance, Eastern Economy Edition

4. International Human Resource Management (2018) Annamalo & Murugan, Discover Publishing House**.**

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LESSON – 4

ORGANIZATIONAL PROCESS IN IHRM

Learning objectives :

- ✓ To describe the path of organisation to global status

- ✓ To explain the organisational structure in MNCs

- ✓ To describe the control mechanism

- ✓ To discuss about the strategic framework

Structure of the lesson :

4.1 INTRODUCTION :

The human resource functions do not operate in a vacuum. The shift from a domestic

to a global focus affects the HR activities as well as other departments. As a consequence, HR activities are determined by and influence various organisational factors, such as :

1. Stage of internationalisation;

2. Mode of operation used in the various foreign markets;

3. The control mechanism and coordination; and

4. Strategic importance of the overseas operations to total corporate profitability.

To a certain extent, how the internationalising firm copes with the HR demands of its various foreign operations determines its ability to execute its chosen expansion strategies.

4.2 PATH TO GLOBAL STATUS :

Apart from the strategic imperatives and staffing approaches, IHRM is affected by the way the internationalisation process itself is managed. Most firms pass through several stages of organisational development as the nature and size of their international activities grow. As they go through these evolutionary stages, their organisational structures change, typically due to the strain imposed by growth and geographical spread, the need for improved coordination and control across business units and the constraints imposed by host-government regulations on ownership and equity.

Multinationals evolving from a domestic to a truly global organisation may involve a long process with many diverse steps. Some firms may use licensing, subcontracting, or other operation modes, instead of establishing their own foreign production or service facilities. Others are able to accelerate the process through acquisitions, thus leapfrogging over intermediate steps (i.e., move directly into foreign production through the purchase of a foreign rather than initial exporting), followed by sales subsidiary.

Some firms can be driven by external factors such as host-government action (e.g., forced into a joint venture) or an offer to buy a company. Others are formed expressly with the international market in mind. The number of steps or stages, along the path to multinational status varies from firm to firm.

Fig. 4.1 : Stages of Internationalisation

Figure 3.1: Stages of Internationalisation
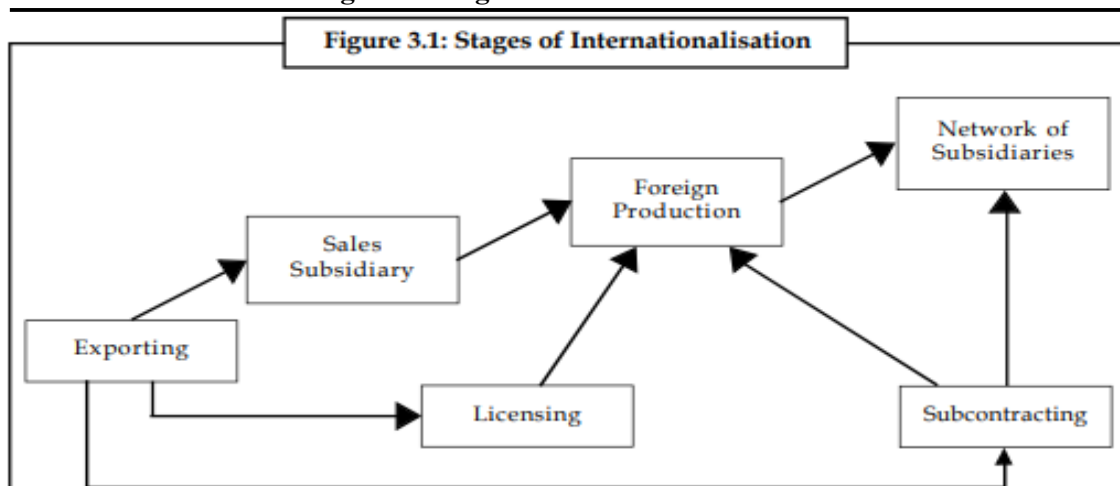
4.2.1 Exporting :

Exporting is initial stage for the firms entering international operations. It rarely involves much organisational response until the level of export sales reaches a critical point. Exporting may be difficult for service companies (such as legal firms) so that they may be forced to make an early step into foreign direct investment operations (via a branch office, or joint venture). Exporting often tends to be handled by an intermediary (e.g., an export agent or foreign distributor – usually an HCN, as local market knowledge is critical). As exports sales increase, an export manager may be appointed to control foreign sales and actively seek new markets. This person Notes is commonly from the domestic operations. Further growth in exporting may lead to the establishment of an export department at the same level as the domestic sales department as the firm becomes more committed to or more dependent on, its foreign export sales.

**Fig. 4.2 : Export Department**

Figure 3.2: Export Department
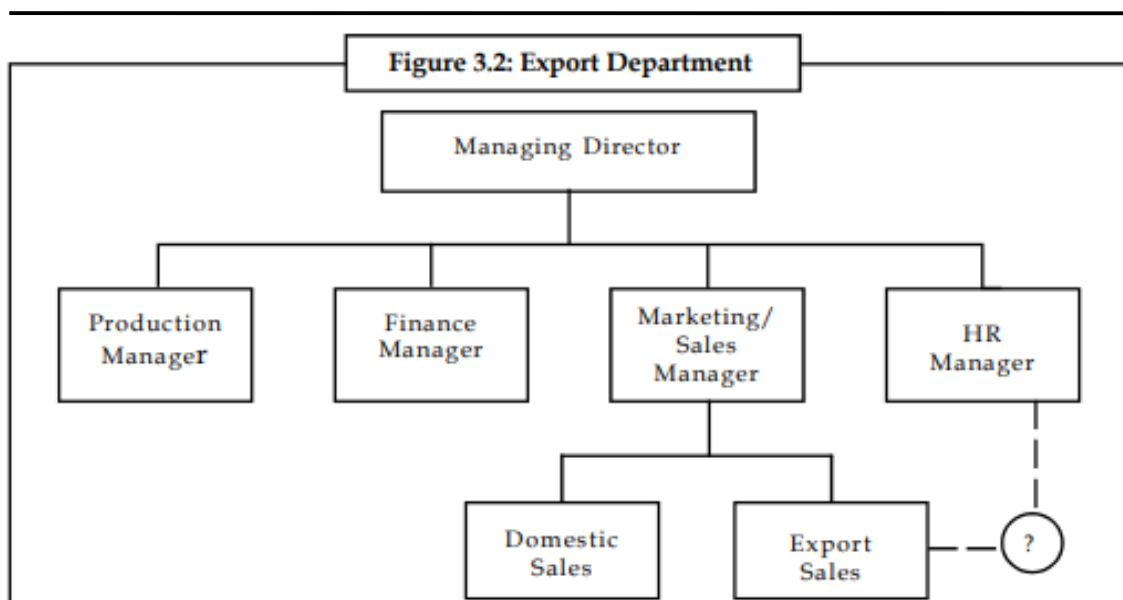
At this stage, exporting is controlled from the domestic-based home office through a designated export manager. The role of the HR department is unclear. Though there are HR activities involved (such as the selection of export staff), and perhaps training of the foreign agency staff, these activities are handled by the marketing department or exporting staff, the HR department has little involvement with the development of policies and procedures surrounding the HR aspects of the firm's early international activities.

4.2.2 Initial Division Structure (Early Stages of Internationalisation) :

As the firm develops expertise in foreign markets, agents and distributors are replaced by direct sales with the establishment of branch offices in the foreign market countries and the company creates an export division or function at the corporate home office and the export division head directly reports to the CEO. As international sales increase further, local governments exert pressure on these growing markets for setting up on-site manufacturing facilities which prompts the company to set up a subsidiary and a branch office in the

concerned foreign countries. Each subsidiary is responsible for operations within its own geographic area, and the subsidiary manager reports directly to the export division head at the corporate office. PCNs are usually posted to important positions because the firm has more confidence in them to implement proven home office human resource policies and practices. This is known as the ethnocentric approach. The decision to use PCNs leads into exportation of management issues and activities. At this point the HR department becomes actively involved in the personnel aspects of the firm's international operations.

Fig. 4.3 : Use of Subsidies during Early Internationalisation

Figure 3.3: Use of Subsidies during Early Internationalisation
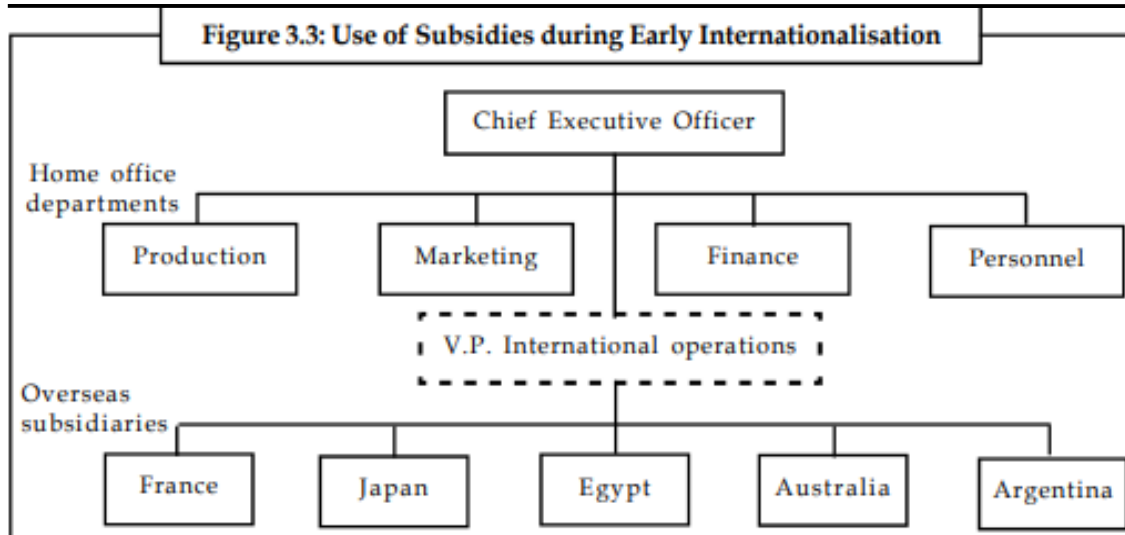
4.2.3 International Division :

This step may be considered small if the firm already is assembling the product abroad to take advantage of cheap labour or to save shipping costs or tariffs or is thinking to establish a sales subsidiary to foreign production. For other firms, the transition to foreign investment is a large and sometimes prohibitive step.

Example :

An Australian firm that was successfully exporting mining equipment to Canada began to experience problems with after-sales servicing and delivery schedules. The establishment of its own production facility was considered a great step, so the firm entered into a licensing agreement with a Canadian manufacturer.

Having made the decision to produce overseas, the firm may establish its own foreign production facilities, or enter into a joint venture with a local firm, or buy a local firm. Regardless of the method of establishment, foreign production / service operations tend to trigger the creation of a separate international division in which all international activities are grouped.

With the spread of international activities, the firm establishes miniature replicas of the domestic organisations in foreign subsidiaries. The subsidiary managers report to the head of the international division, and there may be some informal reporting directly to the various
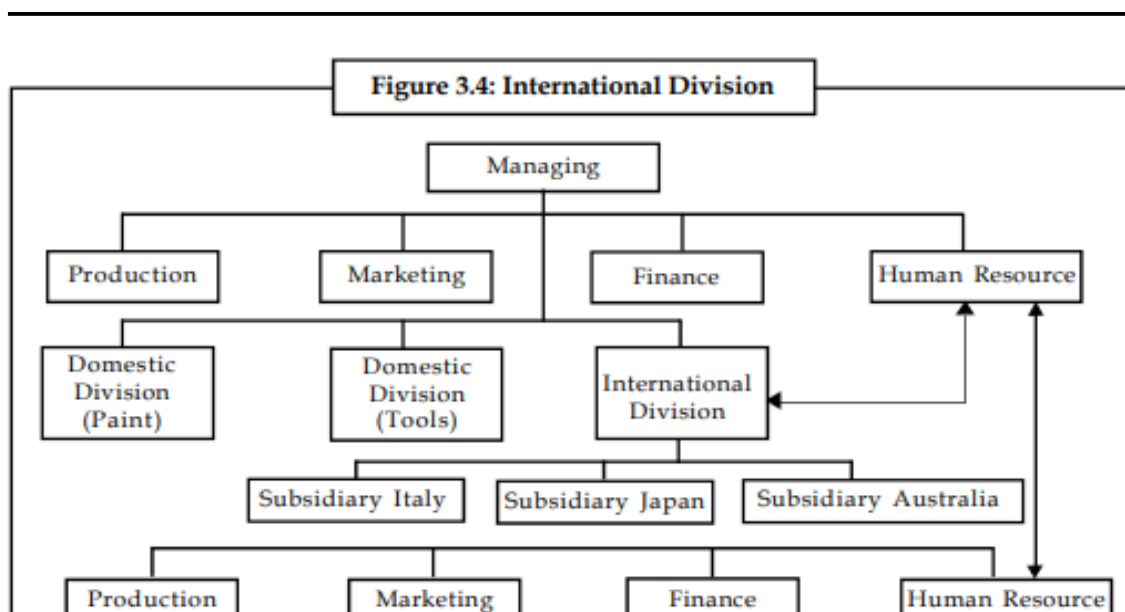
functional heads.

Example :

There may be contact regarding staffing issues between the HR managers in the two subsidiaries and the HR manager at corporate headquarters.

Many firms at this stage of internationalisation are concerned about maintaining control of the newly established subsidiary and will place PCNs in all key position in the subsidiary. While others decide that local employment conditions require local handling and place an HCN incharge of the subsidiary HR function, thus making an exception to the overall ethnocentric approach.

Fig. 4.4 : International Division

Figure 3.4: International Division

The role of corporate HR staff is primarily concerned with expatriate management though there will be some monitoring of the subsidiary HR function-formally through the head of the International Division. Expatriate managers perform a major role; identifying employees who can direct the daily operations of the foreign subsidiaries, supervising transfer of managerial and technical know-how, communicating corporate policies, and keeping corporate HQ informed. As the firm expands its foreign production or service facilities into other countries, increasing the size of its foreign workforce, accompanied by a growth in the number of expatriates, more formal HR policies become necessary.

4.2.4 Global Product :

As the firm moves from the early foreign production stage into a phase of growth through production or service, standardisation, and diversification, the strain of sheer size creates problem and the international division becomes overstretched making effective communication and efficiency of operation difficult. So, corporate top managers become concerned that the international division for its autonomy and independence from the domestic operations to the extent that it operates as a separate unit.

Conflicts between the parent company (headquarters) and its subsidiaries arises due to the need for national responsiveness at the subsidiary unit and global integration imperatives at the parent headquarters. The demand for national responsiveness at the subsidiary unit develops because of factors such as differences in market structures, distribution channels, customer needs, local culture, and pressure from the host government. The need for more centralized global integration by the headquarters comes from having multinational customers, global competitors, and the increasingly rapid flow of information and technology and from the quest for large volume for economies of scale. As a result of these various forces for change, the multinational confronts two major issues of structure :

1. The extent to which key decisions are to be made at parent headquarter or at the subsidiary units (centralisation vs. decentralisation), and

2. The type of control exerted by the parent over the subsidiary unit (bureaucratic control vs. normative).

The structural response, at this stage of internationalisation, can be either a product – or service based global structure or an area-based structure.

Product / service based global division :

In this structure the company treats each of its major products as distinct Strategic Business Units (SBUs). Divisions/functions at the corporate office are given worldwide responsibility for production, finance, marketing and management of supply chain for each product or product line. These product divisions also have internal functional support.

Fig. 4.5 : Global Product Divisions
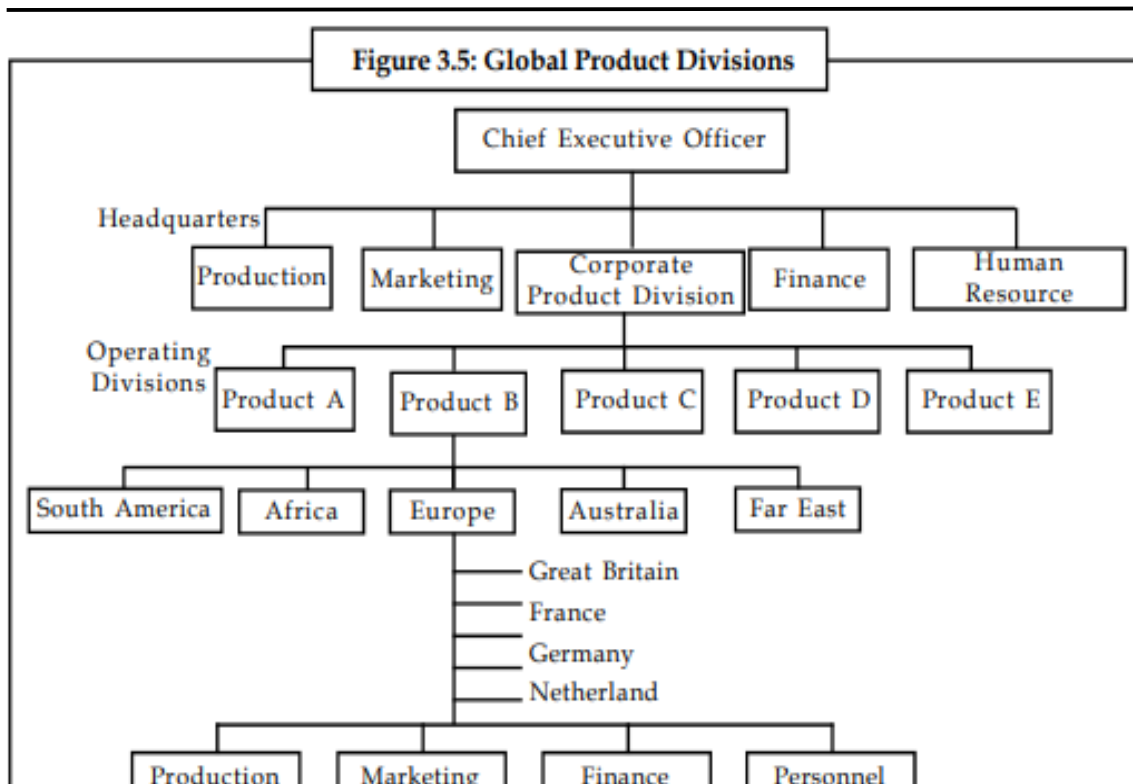
Area based global division :

In this structure a multinational prefers to division its foreign operations on the basis of geographical unit rather than on product basis. The corporate structure at the HQ remains as in case of product-based division. The HQ is responsible for transferring excess resources from one country to another as required and to establish coordination between different countries to provide synergy and overall goal achievement.

Fig. 4.6 : Global Area Divisions

Figure 3.6: Global Area Divisions

As part of the process of accommodating subsidiary concerns through decentralisation, the Notes MNC strives to adapt its HRM activities to each host-country's specific requirements; this impacts the corporate HRM function. There is devolution of responsibility for local employee decisions to each subsidiary, with corporate HR staff performing a monitoring role, intervening in local affairs only in extreme circumstances. Example: In the late-1980s, Ford Australia had a ceiling on its HRM decisions and any decision that involved an amount above that ceiling (such as promotions above a certain salary grade) had to be referred to its regional Headquarters for corporate approval. Expatriate management remained the responsibility of corporate HR staff. This HRM monitoring role reflects management's desire for central control of strategic planning–formulating, implementing, and coordinating strategies for its worldwide markets. The growth in foreign exposure combined with changes in the organisational structure of international operations results in an increase in the number of employees needed to oversee the activities between the parent firm and its foreign affiliates.

4.2.5 Global Matrix Structure :

When a multinational is trying to integrate its operations in more than one dimension, like product as well as area or customers and technology, it resorts to the matrix structure. Both product division and area division share joint responsibility. This means both executives jointly decide allocation of resources and other important matters but the matrix manager is responsible for the results.

Fig. 4.7 : Matrix Structure

Figure 3.7: Matrix Structure
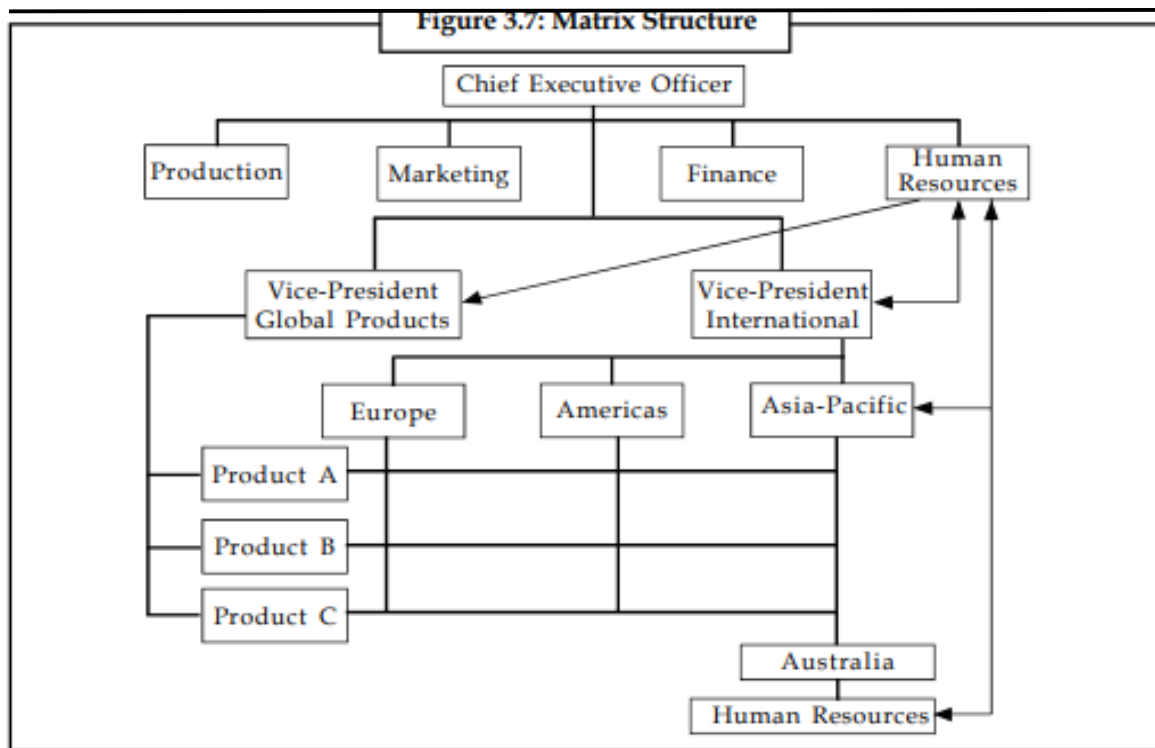
In this structure, there are pressures from horizontal matrix managers for equal allocation of resources and the vertical managers are supposed to balance this by taking into account the relative importance of products or projects based on organisational priorities and other long-term considerations.

Disadvantages of Matrix Structure :

1. As the design complexity increases, coordinating the personnel and getting everyone to work towards a common goals often becomes difficult.

2. Some employees experience dual authority, which is frustrating and confusing. So, managers need excellent interpersonal and conflict-resolution skills.

4.3 CONTROL MECHANISM :

International operations place additional stresses on control mechanisms. There is also additional stress on the firm's ability to coordinate resources and activities. The less-hierarchical and networked structures that are evolving require coordination and human resource processes of high-level involvement, taking into account cultural variables of each unit and national culture. Human resource management plays a key role in control and coordination process in less hierarchical structures :

1. The key means for vital knowledge generation and diffusion is through personal contact.

This means that networked organisations need processes to facilitate contacts. Training and development programmes held in regional centres or at headquarters, become an important forum for the development of personnel networks that foster informal communication channels, as well as for building corporate culture.

2.   Network relationships are built and maintained through personal contact. Therefore, staffing decisions are crucial to the effective management of the linkages that the various subsidiaries have established.

3.   The management processes in a networked multinational rely heavily on the ability of key staff to integrate operations to provide the internal company environment that fosters the required level of cooperation, commitment and communication flows between functions and subsidiary units.

4.   Staff transfers are also an important part of the required management processes, particularly that of control. Multinationals continue to rely on the movement of key staff to assist incoordination and control.

5.   Expatriates are used to instill a sense of corporate identity in subsidiary operations, and to assist in the transfer of corporate norms and values as part of corporate cultural (or normative) control.

6.   The visit of the CEO to different countries also helps in integrating relationships and developing, strategic focus.

Thus, proponents of less-hierarchical configurations argue there is greater reliance on informal control mechanisms than on the formal, bureaucratic control mechanisms that accompanied the traditional hierarchy.

Fig. 4.8 : Control Mechanisms in Network MNC

Figure 3.8: Control Mechanisms in Network MNC
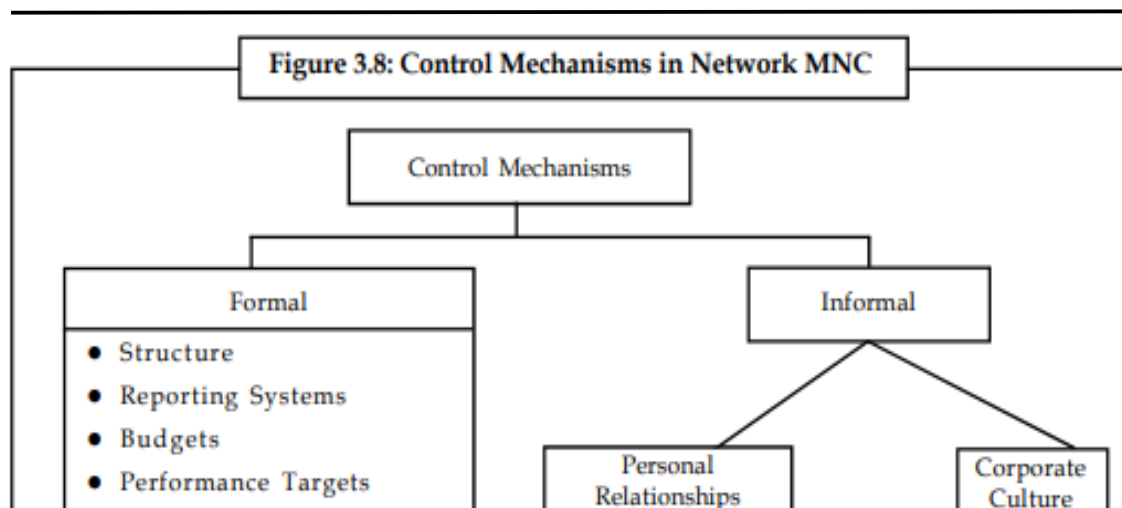
It is important to remember that international growth affects the firm's approach to HRM and the HRM implications at each stage of internationalisation. Firms vary from one another as they go through the stages of international development, and react in different

ways to the circumstances they encounter in the various foreign markets. International operations place additional stresses on control mechanisms. There is also additional stress on the firm's ability to coordinate resources and activities.

Traditionally multinational firms have emphasised more formal, structural forms of control. As presented earlier in the chapter, strategy is implemented via the factoring of work flows, the articulation of control by some combination of specialization characterised by functional, global product division, national, regional (area) divisions, or matrix structures. Structure results in hierarchies, functional authority and increasingly prescribed job descriptions, selection criteria, training standards and compensable factors. Human resource activities act to implement existing structural systems of control. Communication and relationships are formalised and prescribed and budgetary targets and 'rational', explicit, quantitative criteria dominate performance management systems.

Complementary, yet definitely secondary control is developed and maintained via more informal personal and social networks – the informal organisation. The unique cultural interactions and the contextual and physical distances that characterised multinational operations may have Outstripped the capabilities of solely structural and formal forms of control A more cultural focus emphasises the group level potential of corporate culture, informal social processes, personal work networks and the investment in social capital to act as sources of more complete and nimble control in a complex multi-product, multi-cultural environment. On the individual level, an emphasis on persons (as opposed to jobs), their competencies and skills, and the investment in human capital become the focus of more customised human resource practices and processes.

Formal, structural controls still exist, but they are not the primary source of control. The complexities related to subsidiary mandate, reliance on local or corporate technologies and skills, as well as the cultural distance between the corporate and host cultures need to be considered in determining the mix of formal and informal control. Clearly more research is called for in this topic area.

4.4 CONTROL THOUGH PERSONAL RELATIONSHIPS :

A consistent theme in the descriptions of transnational and networked organisation forms is the need to foster vital knowledge generation and diffusion through lateral communication via a network of working relationships. Networks are considered as part of an individual's or organisations social capital: contacts and ties, combined with norms and trust that facilitate knowledge sharing and information exchanges between individuals, groups and business units.

As network relationships are built and maintained through personal contact, organizations need processes and forums where staff from various units can develop types of personal relationships that can be used for organisational purposes. For example, working in cross functional and/or cross-border teams can assist in developing personal contacts. Training and development programs, held in regional centres or at headquarters, become an important forum for the development of personal networks that foster informal communication channels.

4.5 CONTROL THROUGH CORPORATE CULTURE :

Some advocates of more complex structural forms regard the use of cultural control as an effective informal control mechanism. Corporate culture is variously defined, but essentially it refers to a process of socialising people so that they come to share a common set of values and beliefs that then shape their behaviour and perspectives. It is often expressed as 'our way of doing things'. Cultural control may be a contentious issue for some – evidence of multinational imperialism where corporate culture is superimposed upon national cultures in subsidiary operations. However, its proponents offer persuasive arguments as to its value as a management tool. The emphasis is on developing voluntary adherence to corporate behavioural norms and expectations through a process of internalisation of corporate values and beliefs. The literature on corporate culture recognises the role played by HR activities in fostering corporate culture. For example, Alvesson and Berg regard HRM activities as important means of establishing corporate culture identity. HR activities that build corporate culture include recruitment and selection practices, as firms hire or 'buy' people who appear to hold similar values. Training and development programs, reward systems and promotion are also activities that reinforce company value systems.

Such reinforcement is considered to lead to more committed and productive employees who evince appropriate behaviour and therefore reduce the need for formal control mechanisms. Placement of staff is another method. Some global firms have become even more systematic in their efforts to achieve control by way of shared corporate culture. These functions also help organisations sustain in an international environment.

4.6 SUSTAINING INTERNATIONAL BUSINESS OPERATIONS :

Within multinational companies, there is a need to balance international strategy with local conditions and needs and move towards new organisational structures. Global HRM functions like staffing, training and development of employees going out of nation or assignments or working in a different environment, is essential to be paid attention to. One of the key aspects of the strategic management of modern organisations is the balance between differentiation and integration. While flexibility is required in the way business is conducted differently in different locations, there is a need to integrate activity and coordinate not only business activity but the way people are developed and deployed within the international organization.

The level of strategic control needed in an international operation is depicted along three axes : the type of subsidiary operating in each country; the type of international business strategy employed; and the type of ownership.

4.7 PERLMUTTER'S MODEL :

Perlmutter suggested different internationalising strategies that organisations tend to fit which influence personnel practices within the global context. The ethnocentric approach is probably closest to global organisation where control is tight from the centre with subsidiaries having little autonomy and where key positions are held by home-country nations and there is a high degree of management by expatriates. The polycentric approach

sees each subsidiary as a separate entity. Although subsidiaries are managed by locals, these same local managers are unlikely to have a career in the international group or at headquarters. The ideal approach is seen as the geocentric organisation.

Table 4.1 : Perlmutter's Model of International Strategies

Table 3.1: Perlmutter's Model of International Strategies				
	Ethnocentric	**Polycentric**	**Regiocentric**	**Geocentric**
Prevailing organizational culture	Home country	Host country	Regional	Global
Finance	Repatriation of profits to home country	Retention of profits in host country	Redistribution within region	Redistribution globally
Strategy	Global integration	National responsiveness	Regional integration and national responsiveness	Global integration national responsiveness
Marketing	Product development determined mostly by needs of home country customers	Local product development based on local needs	Standardized within region, but not across regions	Global products with local variation
Personnel practices	People of home country developed for key positions everywhere in the world	People of local nationality developed for key positions in their own country	Regional people developed for key positions anywhere in the region	Best people everywhere developed for key positions everywhere in the world

Bartlett and Ghoshal Model In 1989, Bartlett and Ghoshal offered the 'transnational' as the ideal type. They distinguish multinational organisations; global organisations; international organisations; and, transnational organisations.

1. Multinational :

This type of organisation responds to the need to exploit national diversity and recognise that consumer tastes and needs of technology may be based on local conditions and national culture. This type of organisation will have a strong national presence and can respond to national diversity. There is very little direct influence from the parent company and interpersonal communication among representatives from the different cultures is quite limited.

Example :

The American ITT, which needs to respond on a local basis to specific regulations, requirements and formats in the telecommunications switching industry.

2. Global :

The organisation exploits the cost advantages of centralised global scale operations based on knowledge development that is retained at the centre and on the implementation of the parent company's strategies. It responds to the trends of growing globalisation of tastes, fashions and consumer demand generally.

Example :

The Japanese Matsushita which exploits and promotes the globalisation of taste in consumer electrics, being export-based with research and development, manufacturing and branding concentrated at the centre.

3. International :

The organisation exploits the parent company's knowledge and adapts it worldwide. Sources of core competencies are centralised but other competencies may be decentralised. The role of overseas operations is to adapt the parent company's competencies to the local environment. Knowledge is developed at the centre and then transferred to the overseas subsidiaries.

Example :

Procter and Gamble is a good example of an international organisation.

4. Transnational :

It seeks to integrate the separate forces operating in the international market place, which each of the three organisational forms addresses only partially. These three forces are :

(a) Global integration : the trend towards greater integration of global tastes. Product trends such as Coca-Cola and McDonald's are examples.

(b) Local differentiation : the demand of local and national tastes and of protectionism from national governments tends towards multinational organizational structures.

(c) Worldwide innovation : the cost of innovation is great and it is more cost-effective, if research and development are centralised and such products emanating from the centre are marketed globally or are adapted internationally in local centres around the world.

A company exhibits backward vertical integration when it controls subsidiaries that produce some of the inputs used in the production of its products.

A company tends toward forward vertical integration when it controls distribution centers and retailers where its products are sold.

Balanced vertical integration means a firm controls all of these components, from raw
Notes materials to final delivery.

4.8 IMPLICATIONS FOR HUMAN RESOURCE MANAGEMENT POLICY :

The implication of different phases of internationalisation for human resource management is gaining importance nowadays. They view organisational forms as representative of stages in the development of international enterprises.

The four phases identified are: domestic, with a focus on home markets and export; international, with a focus on local responsiveness and the transfer of learning; multinational, with a focus on global strategy and price competition; and global with a focus on both local responsiveness and global integration.

Caution Adler and Ghadar's model provides the relationship of culture and responses within human resource management.

1. In the first phase, domestic, there is a denying or ignoring of other cultural contexts with foreigners simply being offered a product developed in the home country.

2. In the second phase, international, it is important to take the cultural component consideration, as firms are moving into foreign markets in which they need to operate more fully and take account of local conditions.

3. The third phase, multinational, is characterised by a globalisation of products and services in order to compete on price and culture is not such a major factor because of necessity there is recognition of cultural differences among the countries of operation.

4. In the fourth phase, global, there is a more complete adaptation to local markets of global products and cultural sensitivity and the international human resource function attempts to provide managers from anywhere with opportunities to develop in order to develop the organisation itself.

4.9 INTEGRATED STRATEGIC FRAMEWORK :

There is a need for an integrated framework of strategic international human resource management that brings together a number of the aspects in a MNC. They propose that there are two major multinational enterprise components that impact on strategic international HR **Missues :** The inter-unit linkages and internal operations.

1. Inter-unit linkages involve the organisation's mechanisms for managing the differentiation and integration of its operating units.

2. Internal operations involves the need for each operating unit (e.g. subsidiary) to function effectively within its own (national or market environment).

The strategic international human resource issues in their framework are concerned with these two components and with the need to manage the international organisation by balancing differentiation and integration and balancing the autonomy of local units against

the need to coordinate and control them.

Fig. 4.9 : Integrated Strategic Framework

Figure 3.9: Integrated Strategic Framework

Exogenous factors

- industrial characteristics
- country/regional characteristics

Strategic MNC components

- inter-unit linkages
- internal operations

Strategic IHRM issues

Inter-unit linkages-control/variety

internal operations
local sensitivity
strategic fit

SIHRM functions

- orientation
- resources
- location

SIHRM policies/ practices

- staffing
- appraising
- compensation
- developing

MNC concerns and goals

- competitiveness
- efficiency
- local responsiveness
- flexibility
- learning and transfer

Endogenous factors

- structure of international operations
- headquarters' international orientation
- competitive strategy
- experience in managing international

---

Some companies have large centralised human resource functions for selecting many functions and repatriating expatriate staff, training and compensation. Others devolve many functions to the subsidiaries either as well as this central function or instead of it. If general guidelines are formulated by the centre that refer only to the need to develop a system for rewarding individual performance, subsidiaries may then be free to develop their own incentive schemes.

Functions and policies are aimed ultimately at meeting the concerns and goals of the multinational organisation. These include global competitiveness, efficiency, local responsiveness, flexibility, and organisational learning and transfer of information.

These concerns vary from company to company. By studying the various factors which are pressing hard for international integration against those factors which point towards local differentiation, it is possible to discuss an optimum instance for managing people in subsidiary operations. This should be achievable by charting a course through these two opposing forces and by drawing on the contributions that can be made from the parent and the different subsidiaries. This requires consideration of the strategic factors that should bead dressed to provide the optimum balance between integration and differentiation, a consideration of cultural differences that exist among the different national operations and the relative contributions which can be made by people in the different national organisations to

the global operation.

Fig. 4.10 : Strategy Optimising Factors in Developing People Management Policies

Figure 3.10: Strategy Optimising Factors in Developing People Management Policies
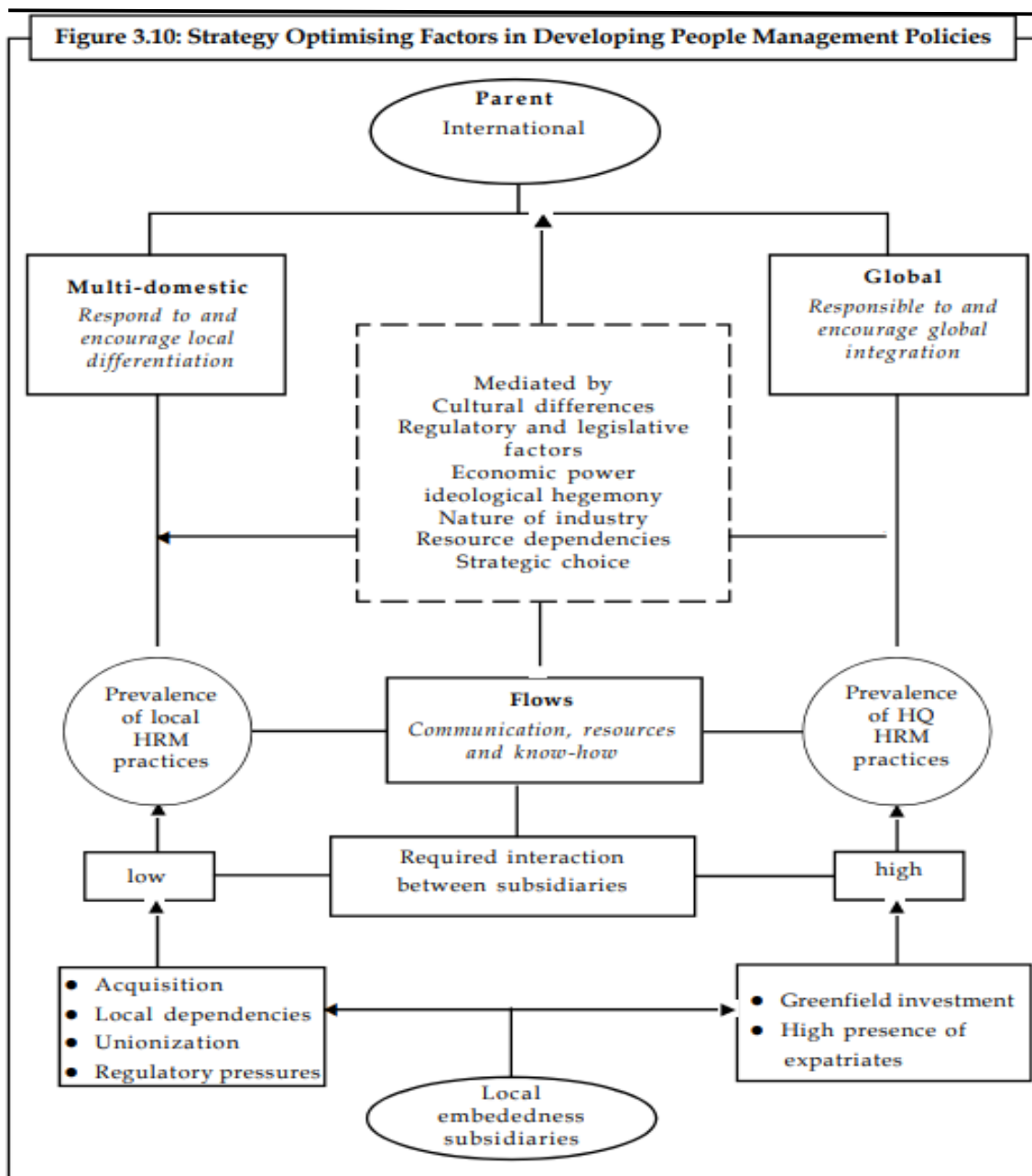
4.10 MANAGEMENT AND ORGANISATION IN EUROPE :

There is a need to develop the appropriate management skills to meet the needs of the individual and need to develop attitudes and flexibility towards managing change, and managing across cultures. Thurely and Widenius characterise these differences between Japanese and American management theory and practice as work security versus individual freedom; organizational loyalty versus job competence; consultation and involvement versus management authority; and work group innovation versus specialist know-how. They are

concerned about developing a 'functional' model of management in the European context that reflects the different cultural values and legal institutional practices in Europe. They present European management as emerging and being linked to the ideal of European integration, which is continuously encompassing more and different countries; reflecting key values including pluralism and tolerance, although not consciously developed from those values; being associated with a balanced stakeholder philosophy and the concept of social partners.

It is possible to summarise the European context of management and organisations as :

1. There is no national identity across the European Community as there is in Japan and the USA; for example there is no equivalent of the 'American Dream'.

2. There is no common language or culture.

3. Change is more complex than in American or Japan, particularly with the further integration of Eastern and Central European countries, and this is in some ways artificial in creation; manufactured by the architects and politicians of the Single European Market, signifying the higher level of creativity needed to manage in this environment.

4. There is increasing cross-border activity through mergers and acquisitions, joint ventures and direct investment situations requiring approaches to management such as project management and networking.

5. There is increasing emphasis on the use of technology as a means of competing (such as e-commerce opportunities and communicating (such as extensive use of Intranet systems).

6. There is continuing demand for linguistic skills, in addition to more traditional management skills.

7. There is a need to manage increasing diversity (between cultures rather than trying to create a uniform culture), ambiguity and complexity and an increasing need to create more flexible organisations and methods of working in order to cope with both diversity and change.

Within this context the management of people may be rather more complex than in American models of human resource management and a higher level of flexibility may be required compared with Japanese approaches

4.11 SUMMARY :

To a certain extent, how the internationalising firm copes with the HR demands of its various foreign operations determines its ability to execute its chosen expansion strategies. Apart from the strategic imperatives and staffing approaches, IHRM is affected by the way the internationalisation process itself is managed. Most firms pass through several stages of organisational development as the nature and size of their international activities grow. Exporting is initial stage for the firms entering international operations. As the firm develops

expertise in foreign markets, agents and distributors are replaced by direct sales with the establishment of branch offices in the foreign market countries and the company creates an export division or function at the corporate home office and the export division head directly reports to the CEO. International operations place additional stresses on control mechanisms. There is also additional stress on the firm's ability to coordinate resources and activities. MNCs use different approaches to manage and staff their subsidiaries. While a firm goes through evolutionary stages, their organisation structure changes. HRM plays an important role in control and coordination process. As the firm goes international, there is a need for an integrated framework of strategic international HRM.

4.12 KEY WORDS :

Global :

The Company that applies the global integration business strategy to manage the staff.

IHRM :

It is the art of managing different people with various cultures across countries.

Matrix structure :

Structure, that results from the integration of the operations of the MNC in more than one dimension.

Multinational Corporation (MNC) :

It is a corporation or enterprise that manages production or delivers services in more than one country.

Multinational Enterprise (MNE) :

A firm that takes a global approach to its foreign markets and production.

Polycentric :

Each subsidiary is managed on a local basis.

Regiocentric :

It reflects the geographic strategy and structure of the MNC.

Strategic alliance :

A collaborative arrangement of critical importance to one or more of the alliance partners.

Vertically integrated :

Companies are united through a hierarchy with a common owner.

4.13 SELF ASSESSMENT QUESTIONS :

1.   Analyse the attitudes of MNCs towards building a multinational enterprise, giving details.

2. Examine the internationalisation process towards the path to global status.

3. Giving an example explain the integrated strategic framework for HRM.

4. Analyse the various factors that needs to be addressed for developing international organisations.

5. Examine the changes in the HRM policy as the firm transcends across its national borders.

4.14 SUGGESTED READINGS :

1. International Human Resource Management (2008), PL Rao Excel Books.

2. International Human Resource Management (2013) Miguel Martine Lucio, Sage Publications.

3. Managing Global Work force (2013), Charles M.Vance, Eastern Economy Edition

4. International Human Resource Management (2018) Annamalo & Murugan, Discover Publishing House**.**

Dr. Nagaraju Battu

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LESSON – 5
CHALLENGES OF IHRM

</div>

Learning objectives :

- ➢   To discuss about global HRM trends

- ➢   To list the challenges faced by GHRM

- ➢   To elucidate on the significance of ethics for corporate

- ➢   To describe strategies of IHRM

Structure of the lesson :

5.1   Introduction

5.2   Global HRM Trends and Future Challenges

     5.2.1   Talent management

     5.2.2   Working virtually

     5.2.3   Tentative global employee engagement

     5.2.4   The economic crisis and fewer existing business opportunities

5.3   Main Challenges in Global HRM

5.4   Barriers to women in GHRM

5.5   Ethics in International Business

     5.5.1   Global Values

     5.5.2   Role of HR in Operationalizing Corporate Ethics Programmes

5.6   Challenges for the HR Function of the Multinational Firm

     5.6.1   Global Developments on the Criminalization of Bribery

     5.6.2   MNC – Global and Good Corporate Citizen

     5.6.3   Social Responsibility of MNCs

5.7   Strategies of IHRM

     5.7.1   Break all the "local national" glass ceilings

     5.7.2   Make it Work

5.8   Summary

5.9   Key words

5.10   Self Assessment Questions

5.11   Suggested Readings

5.1 INTRODUCTION :

When business conducted across national and cultural borders, the operationalization of an enterprise's ethics programme takes on added layers of complexity. Especially, when multinationals operate in host countries that have different standards of business practice and are economically impoverished, whose legal infrastructure is inadequate, whose governments are corrupt and where human rights are habitually violated.

The question of ethical relativity arises where human rights are habitually violated. The question of ethical relativity arises not only in the context of different home-and host-country employment practices but also in the central operations and policies of multinationals. So, now we will Notes understand the developments of international business ethics and the challenges they raise for HR professionals. To exist in international environment, the HRM strategies need to be redefined, some of them are discussed in the unit.

5.2 GLOBAL HRM TRENDS AND FUTURE CHALLENGES :

The human resource functions in a global arena follows some trends and challenges as discussed below :

The importance of globalisation and integrating markets :

Companies will become larger and more global in the coming years, handling operations in more countries than they do today. We're living in an increasingly borderless world.

5.2.1 Talent management :

Finding and retaining quality talent continues to be essential to business sustainability. Finding and retaining quality talent continues to be essential to business sustainability, though its importance in relation to other challenges differs by location. There are more contingent workers, and the rationale behind work force investment is changing and moving in multiple directions.

Most industries and countries are to experience a widening talent gap, notably for highly skilled positions and for next generation of mid and senior leaders.

5.2.2 Working virtually :

Working virtually across functions and geographies will intensify, with implications for intercultural communication, business ethics and organizational effectiveness.

Localising management of overseas operations is the key, but a global outlook is just as important as local knowledge. Businesses need to find new ways to connect people to each other and to information, both internally and externally. The expectation of having an "always-available" employee varies around the world.

5.2.3 Tentative global employee engagement :

Companies that have implemented multiple layoffs have eroded a sense of security in

the global work force. There is a disconnection between what companies currently have to offer employees and what employees really value.

Retaining valued talent is more important, but the drivers to retain that talent are different depending on the type of market (growth opportunity is paramount in growth markets; new or challenging responsibilities is paramount in mature markets).

The gap in creative leadership, executing for speed, and managing 'collective intelligence' must be addressed. Employee engagement has suffered; companies are now trying to restore pride and trust.

5.2.4 The economic crisis and fewer existing business opportunities :

The crisis and fewer opportunities create a high demand on the global HR function to demonstrate greater adaptability.

Human Resource (HR) will be an important link between corporate headquarters and overseas operations. HR is conducting too many initiatives, with mediocre outcomes.

Companies need to reform their HR function and boost resources devoted to HR.

Economic uncertainties :

They fundamentally change motivators that attract and retain employees. There is an unbridged disparity between what companies have to offer employees and what employees really value.

Human capital protectionism :

It may continue to increase in many countries in non-tariff, nationalistic forms.

Global mobility of high-value workers :

It continues as multinational companies restrict new hires and relocate talented employees from within their existing work force.

Companies in emerging markets :

Companies that originate in emerging economies will continue to succeed in the global marketplace.

Increased demand for HR metrics :

It may bring about a widely accepted set of analytic measures and methods (global standards) to describe predict and evaluate the quality and impact of HR practices and the productivity of the work force. However, globalisation is also driving impetus toward the use of more metrics with greater cultural sensitivity.

5.3 MAIN CHALLENGES IN GLOBAL HRM :

Some major challenges in GHRM have been summarised below :

1.   High failure rates of expatriation and repatriation

2. Deployment-getting the right mix of skills in the organisation regardless of geographical location.

3. Knowledge and innovation dissemination-managing critical knowledge and speed of information flow.

4. Talent identification and development-identify capable people who are able to function effectively.

5.4 BARRIERS TO WOMEN IN GHRM :

International ethics

1. Language (example, spoken, written, body)

2. Different labour law

3. Different political climate Notes

4. Different stage(s) of technological advancement

5. Different values and attitudes example, time, achievement, risk taking

6. Roles of religion example, sacred objects, prayer, taboos, holidays, etc.

7. Educational level attained

8. Social organisations example, social institutions, authority structures, interest groups, status system

5.5 ETHICS IN INTERNATIONAL BUSINESS :

When business conducted across national and cultural borders, the operationalisation of an enterprise's ethics programme takes on added layers of complexity. Especially, when multinationals operate in host countries that have different standards of business practice and are economically impoverished, whose legal infrastructure is inadequate, whose governments are corrupt and where human rights are habitually violated.

The question of ethical relativity arises where human rights are habitually violated. The question of ethical relativity arises not only in the context of different home- and host-country employment practices but also in the central operations and policies of multinationals. So, now we will understand the developments of international business ethics and the challenges they raise for HR professionals.

5.5.1 Global Values :

If a multinational has assigned a PCN to manage its operations in a host country where bribery is common, child labour is used and workplace safety is wanting, then it is difficult to determine whose standards should prevail i.e. those of the multinational's parent country or the host country?

5.5.2 Role of HR in Operationalizing Corporate Ethics Programmes :

HR has a special role to play in the formulation, communication, monitoring and

enforcement of an enterprise's ethics programme. The HR function along with finance and law is the appropriate locus of responsibility for an enterprise's ethics programme. HR is well positioned to make an important contribution to creating, implementing and sustaining ethical organisational behaviour within a strategic HR paradigm. HR professionals have specialized expertise in the areas of organisational culture, communication, training, performance management, leadership, motivation, group dynamics, organizational structured and change management–all of which are key factors for integrating responsibility for ethics into all aspects of organizational life.

5.6 CHALLENGES FOR THE HR FUNCTION OF THE MULTINATIONAL FIRM :

People involved in international business activities face many of the same ethical issues as those in domestic business but the issues are made more complex because of the different social, economic, political and legal environments in which multinationals operate. So, multinationals will need to develop self-regulatory practices via codes of ethics and behavioural guidelines for expatriate, TCN and local HCN staff. Firms which opt consciously or by default to leave ethical considerations up to the individual not only contribute to the pressures of operating in a foreign environment but also allow internal inconsistencies that affect total global performance.

1. When selecting expatriates, their ability to manage with integrity could be a job-relevant criterion.

2. The pre-departure training of expatriates and their orientation programme should include an ethics component.

3. This might include formal studies in ethical theory and decision-making as well as interactive discussion and role playing around dilemmas that expatriates are likely to encounter.

4. In an effort to sensitize managers to cultural diversity and to accept the point that home practices are not necessarily the best or only practices, there has been an emphasis in international business training on adapting to the way in which other cultures do business.

5. In designing training programmes to meet the challenges of multinational business, HR professional must raise not only the issue of cultural relatives but also the extent to which moral imperatives transcend national and cultural boundaries.

6. It is also important for the HR department to monitor the social (ethical) performance of its expatriate managers to ensure that as managers become familiar with the customs and practices of competition in the host country, they do not backslide into the rationalization that "everybody else does it".

7. To avoid temptation to cut 'ethical corners', expatriates must not be placed under unreasonable pressure to deliver good financial results and they must be given feedback and reinforcement.

5.6.1 Global Developments on the Criminalisation of Bribery :

Bribery and corruption are the most frequent ethical problems encountered by international managers. The World Bank estimates that about US $80 billion annually goes to corrupt government officials.

Bribery involves the payment of agents to do things that are inconsistent with the purpose of their position or office in order to gain an unfair advantage. It can be distinguished from so called gifts and 'facilitating' or 'grease' payments. The latter are payments to motivate agents to complete a task they would routinely do in the normal course of their duties. Bribery undermines equity, efficiency and integrity in the public service, undercuts public confidence in markets and aid programmes, adds to the cost of products and may affect the safety and economic well-being of the general public.

Internationally, the movement to criminalize the practice of bribery was started when in 1977, the USA enacted the Foreign Corrupt Practices Act (FCPA) to prohibit US-based firms and US nationals from making bribery payments to foreign government officials.

1. Payments to agents violate the Act if it is known that the agent will use those payments to bribe a government official. The Act was amended in 1988 to permit 'facilitating' payments but mandates record-keeping provisions to help ensure that those payments are not disguised as entertainment or business expenses.

2. In December 1996, the UN adopted the United Nations Declaration against Corruption and Bribery in International Commercial Transactions, which committed UN members to criminalize bribery and deny tax deductibility for bribes. A year later, the Declaration was endorsed by 30 member nations and four non-member nations of the OECD adopting the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD) Convention.

5.6.2 MNC – Global and Good Corporate Citizen :

A global world is an interconnected world. It presents a critical challenge to identify common ethical values that underline cultural, religious and philosophical differences. While there are important differences between Western and Eastern philosophical traditions, they share four fundamental core human values :

1. Good citizenship

2. Respect for human dignity

3. Respect for basic rights

4. Equity

Applications of core human values to specific duties of multinationals include the adoption of adequate workplace and environmental health and safety standards, the payment of basic living wages, equal employment opportunity, refraining from the use of child labour,

providing basic employee training and education, and allowing workers to organize and form unions.

The regulation of foreign investment is another area that has some implications for ethics and social responsibility. Many nations and their governments have disapproved the ethics of MNCs gaining an economic foothold and then taking the resources and profits back home. These concerns have led to regulation.

In order to be accepted as a good corporate citizen in the local community, a subsidiary must be prepared to abide by both the word and spirit of local laws. This is because the media is particularly harsh with them.

5.6.3 Social Responsibility of MNCs :

Ethics and the question of corporate social responsibility are complex and the source of much controversy.

Corporate social responsibility is a form of corporate self-regulation integrated into a business model. CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms.

Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.

Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. It is also known as corporate responsibility, corporate citizenship, responsible business, Sustainable Responsible Business (SRB), or corporate social performance.

Corporate Social Responsibility is becoming an increasingly prominent issue in Europe, North America and elsewhere. The main reasons for this growing interest are:

1.   Globalisation and rapid advances in information technologies;

2.   The greater importance of citizen-driven activities, best seen in the work;

5.7 STRATEGIES OF IHRM :

Human resource is the most significant part of an organisation. With organisations going global, the functions and responsibilities of HRM have also enhanced. Below are described the strategies for IHRM with the steps towards them.

Steps to a Global Human Resources Strategy :

The scarcity of qualified managers has become a major constraint on the speed with which multinational companies can expand their international sales. The growth of the knowledge based society, along with the pressures of opening up emerging markets, has led cutting-edge global companies to recognise now more than ever that human resources and

intellectual capital are as significant as financial assets in building sustainable competitive advantage. To follow their lead, chief executives in other multinational companies will have to bridge the gap between their companies' human resources rhetoric and reality. HR must now be given a prominent seat in the boardroom.

Good HR management in a multinational company comes down to getting the right people in the right jobs in the right places at the right times and at the right cost. These international managers must then be meshed into a cohesive network in which they quickly identify and leverage good ideas worldwide.

Such an integrated network depends on executive continuity. This in turn requires career management to insure that internal qualified executives are readily available when vacancies occur around the world and that good managers do not jump ship because they have not been recognized

Very few companies come close to achieving this. Most multinational companies do not have the leadership capital they need to perform effectively in all their markets around the world.

One reason is the lack of managerial mobility. Neither companies nor individuals have come to terms with the role that managerial mobility now has to play in marrying business strategy with HR strategy and in insuring that careers are developed for both profitability and employability.

Ethnocentricity is another reason. In most multinationals, HR development policies have tended to concentrate on nationals of the headquarters country. Only the brightest local stars were given the career management skills and overseas assignments necessary to develop an international mindset.

HR directors rarely have extensive overseas experience and their managers often lack business knowledge. Also, most HR directors do not have adequate information about the brightest candidates coming through the ranks of the overseas subsidiaries. "HR managers also frequently lack a true commitment to the value of the multinational company experience," notes Brian Brooks, group director of human resources for the global advertising company WPP Group Plc.

The consequent lack of world-wide multi-cultural managerial talent bites into companies' bottom lines through high staff turnover, high training costs, stagnant market shares, failed joint ventures and mergers and the high opportunity costs that inevitably follow bad management selections around the globe.

Companies new to the global scene quickly discover that finding savvy, trustworthy managers for their overseas markets is one of their biggest challenges. This holds true for companies across the technology spectrum, from software manufacturers to textile companies that have to manage a global supply chain. The pressure is on these newly globalising companies to cut the trial-and-error time in building a cadre of global managers in order to shorten the leads of their larger, established competitors, but they are stymied as to how to do it.

The solution for multinationals is to find a way to emulate companies that have decades of experience in recruiting, training and retaining good employees across the globe.

Example :

Both Unilever and the International Business Machines Corporation, leverage their worldwide HR function as a source of competitive advantage.

Anglo-Dutch Unilever has long set a high priority on human resources. HR has a seat on the board's executive committee and an organisation that focuses on developing in-house talent and hot-housing future leaders in all markets. The result is that 95 percent of Unilever's top 300 managers are fully homegrown. Internationalisation is bred into its managers through job content as well as overseas assignments. Since 1989, Unilever has redefined 75 percent of its managerial posts as "international" and doubled its number of managers assigned abroad, its expatriates, or "expats."

The strategy demands global HR leadership with standard systems but local adaptation. The key underlying ideas are to satisfy your company's global human resources needs via feeder mechanisms at regional, national and local levels, and to leverage your current assets to the fullest extent by actively engaging people in developing their own careers.

Example :

IBM, with 80 years' experience in overseas markets, reversed its HR policy in 1995 to deal with the new global gestalt and a new business strategy. Instead of cutting jobs abroad to reduce costs, IBM. is now focusing on its customers' needs and increasing overseas assignments. "We are a growing service business — our people are what our customers are buying from us," explained Eileen Major, director of international mobility at IBM.

When managers sign on with these companies, they know from the start that overseas assignments are part of the deal if they wish to climb high on the corporate ladder. These multinational companies manage their HR talent through international databases that, within hours, can provide a choice of Grade-A in-house candidates for any assignment. Even allowing for company size, few United States-based multinationals come close to matching the bench strength of a Unilever or Nestlé. The Japanese multinationals are even farther behind.

By adopting the strategies mentioned below, a company should be able to put into place an effective global human resources program within three to four years.

5.7.1 Break all the "local national" glass ceilings :

The first, and perhaps most fundamental, step toward building a global HR program is to end all favouritism toward managers who are nationals of the country in which the company is based. Companies tend to consider Multi-nationals of their headquarters country as potential expatriates and to regard everyone else as "local nationals." But in today's global markets, such "us-versus-them" distinctions can put companies at a clear disadvantage, and there are strong reasons to discard them.

Ethnocentric companies tend to be xenophobic — they put the most confidence in nationals of their headquarters country. This is why more nationals get the juicy assignments, climb the ranks and wind up sitting on the board — and why the company ends up with a skewed perception of the world. Relatively few multinational companies have more than token representation on their boards.

A.B.B. is one company that recognises the danger and now considers it a priority to move more executives from emerging countries in Eastern Europe and Asia into the higher levels of the company.

Big distinctions can be found between expatriate and local national pay, benefits and bonuses, and these differences send loud signals to the brightest local nationals to learn as much as they can and move on.

Less effort is put into recruiting top-notch young people in overseas markets than in the headquarters country. This leaves fast-growing developing markets with shallow bench strength.

Insufficient attention and budget are devoted to assessing, training and developing the careers of valuable local nationals already on the company payroll.

5.7.2 Make It Work :

Above described IHRM strategies have the potential to affect every executive in every location.

Following business ethics is necessary at each step. This scale of culture change has to be led by a company's chief executive, with full commitment from the top management team. A task force of HR and business strategists will be needed to facilitate and implement the program, but its success in the end will depend on line managers.

5.8 SUMMARY :

When the business is conducted across national and cultural borders, the operationalisation of the enterprises ethics programme adds complexity.

Challenge in the international business lies in incorporating the core business values and aligning the staff to these values.

Challenges for the managers operating in diverse cultural environments is that different cultures will prioritise core ethical values differently and will translate values into specific behaviors differently.

Culture shock develops as a result of a person working within a different and unknown cultural or social environment.

Bribery and corruption are the most frequent ethical problems encountered by international managers

Ethics and corporate social responsibility are important factors but complex issues.

International managers must expect managers from other cultures to apply different criteria in making ethical decisions and that such choices are heavily influenced by each one's culture.

The scarcity of qualified managers has become a major constraint on the speed with which multinational companies can expand their international sales.

Good HR management in a multinational company comes down to getting the right people in the right jobs in the right places at the right times and at the right cost. These international managers must then be meshed into a cohesive network in which they quickly identify and leverage good ideas worldwide.

The consequent lack of world-wide multi-cultural managerial talent bites into companies' bottom lines through high staff turnover, high training costs, stagnant market shares, failed joint ventures and mergers and the high opportunity costs that inevitably follow bad management selections around the globe.

Based on the company's business strategy, activities should be identified that are essential to achieving success around the world and specify the positions that hold responsibility for performing them.

Overseas assignments and cross-border task forces are excellent ways to challenge, develop and retain good managers.

5.9 KEYWORDS :

Corporate Ethics :

It refers to the formulation of the internal policies pertaining to the ethical conduct of employees.

CSR :

It a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms.

Culture :

It is the organisation's personality revealing the shared values, beliefs and habits of its members.

Culture Shock :

It is the anxiety and feelings of surprise, disorientation, uncertainty; confusion, etc. felt when people have to operate within a different and unknown cultural or social environment.

Ethical Absolutists :

They believe in the primacy of one's own culture values.

Ethical Consumerism :

It is the intentional purchase of products and services that the customer considers to be made ethically with a minimal harm to or exploitation of humans, animals and/or the

natural environment.

Ethical Relativists :

They believe that there are no universal or international rights and wrongs.

Glass Ceiling :

It is an unofficially acknowledged barrier to advancement in a profession, especially affecting women and members of minorities.

Strategy :

It is a plan of action designed to achieve a particular goal.

Talent Management :

Finding and retaining quality talent continues to be essential to business Sustainability.

5.10 SELF ASSESSMENT QUESTIONS :

1.   Analyse the areas of developments of international business ethics and the challenges they raise for HR professionals.

2.   Being an HR manager, develop the strategies for the international HRM of an Indian subsidiary operating abroad.

3.   Examine the emerging role of HR in operationalising corporate ethics programme.

4.   Why nowadays corporates are becoming socially responsible? Explain by giving example of a big corporates.

5.   Analyse the challenges for the HR formation of the international firm.

6.   When a firm operates abroad, what are the ways in which a firm can create an image of the good and responsible corporate in the mind of the local community?

7.   Develop the detailed HR plan which a manager should consider when sending his employees abroad for work in the subsidiaries.

8.   How do you think that the problem of bribery and corruption leads to ethical dilemmas? Suggest the measures taken to deals with them.

9.   Consider that your company has decided to send you abroad to manage its operations in a host country where bribery and corruption is common. Analyse the global values which you will follow.

10.   Analyse the role and responsibilities of HR managers in achieving the corporate social responsibility for subsidiary operating abroad.

11.   Describe in detail the IHRM strategies and how can these be made to work.

5.11 SUGGESTED READINGS :

1.   International Human Resource Management (2008),PL Rao Excel Books.

2.   International Human Resource Management (2013) Miguel Martine Lucio, Sage Publications.

3.   Managing Global Work force (2013), Charles M.Vance, Eastern Economy Edition

4.   International Human Resource Management (2018) Annamalo & Murugan, Discover Publishing House**.**

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INTERNATIONAL RECRUITMENT AND SELECTION

Learning objectives :

- ➢ To explain the process of recruitment and selection of staff for international assignment

- ➢ To discuss on the issues in staff selection

- ➢ To describe the factors moderating performance

- ➢ To identify the reasons behind success and failure of expatriates

- ➢ To state the criteria of selection of expatriates

Structure of the lesson :

6.1 INTRODUCTION :

Human Resource Management is crucial to organisational competitiveness and productivity due to the growing diversity of the world's workforce and its increasing importance. The need to manage this diversity better has become a major challenge to the international manager. If large corporations intend to retain their domestic operations and still be competitive with respect to cost and quality, they will have to improve their human resource management. They must be viewed as valuable assets–resources that are vital to the successful performance of the organisation. Talented people must be attracted to join the organisation, developed to perform at high levels, and encouraged to remain with the organisation with loyalty and commitment to the organisation and its objectives.

6.2 RECRUITMENT PROCESS :

In the human resource cycle, recruitment and selection process are the main variables influencing directly the 'performance' as also the 'employee development processes. Recruitment is defined as the process of identifying and attracting the potential candidate from within and outside an organisation to begin evaluating them for future employment. Once candidates are identified, an organisation can begin its selection process which means collecting, measuring and evaluating the information about the candidates.

The four generic processes: selection, performance appraisal, rewards management and human resource development reflect sequential managerial tasks. Performance is a function of all the human resource components: selecting people who are able to best perform the job defined by the structure; motivating employees by rewarding them judiciously, training and developing people for future performance and appraising employees in order to justify the rewards. The strategy and structure also impact performance through the manner in which the jobs are designed, how the organisation is structured and how well services and products are planned to meet environmental threats and opportunities.

These basic resource processes can be done at three levels: strategic level which deals with policy formulation and goal setting; managerial level which is concerned with the availability and allocation of resource to carry out the strategy plan; and at the operational level to carry out day-to-day activities.

Recruitment is the process by which an organisation attracts people to apply for their job openings. The goal is to recruit a pool of qualified candidates from which he desired people may be selected. Recruitment process in international context is very complex. It begins with human resource planning, developing the strategy for searching the potential candidates, attracting an effective workforce to apply for the vacancies and proceeding further with the selection process.

Recruitment can be categorised into two types :

    (1)   external recruitment; and

    (2)   internal recruitment.

External recruitment is conducted in four steps :

1.   Planning : Human resource managers must first determine those jobs they wish to fill, how many candidates they can reach and how many of them would accept the job offer.

2.   Strategy Development : Next, a strategy is developed that specifies where to look for candidates, as well as how and when to look.

3.   Searching : Based on the plan and the strategy, candidates are contacted and given job information and applications are collected. From this pool of candidates, the required new people are hired.

4.   Programme Evaluation : The recruitment programme must be continuously monitored, evaluated, and changed as required.

Sources for external recruitment include direct applications received (walk-ins and applications by mail, public employment agencies, private employment agencies, executive search firms, schools and colleges, professional associations, all branches of the military, unions, the handicapped, summer interns, and former employees.

Internal recruitment consists of promotion from within, job posting, and contacts and referrals by current employees. Another especially good source of recruitment candidates is through the collection of temporary, part-time, and contract workers that has become known as the "temps".

6.3 MNCS INTERNATIONAL STAFFING APPROACHES :

The four approaches to multinational staffing decisions—ethnocentric, polycentric, geocentric, and regiocentric—tend to reflect the managerial philosophy towards international operations held by top management at headquarters.

6.3.1 Ethnocentric Approach :

An ethnocentric approach to staffing results in all key positions in a multinational being filled by Parent-country Nationals (PCNs). While this approach may be common for firms at the early stages of internationalisation, there are often sound business reasons for pursuing an ethnocentric staffing policy.

1.   A perceived lack of qualified Host-country Nationals (HCNs), and

2.   The need to maintain good communication, coordination, and control links with corporate headquarters.

For instance, when a multinational acquires a firm in another country, it may wish to initially replace local managers with PCNs to ensure that the new subsidiary complies with

overall corporate objectives and policies, or because the local staff may not have the required level of competence.

An ethnocentric policy, however, has a number of disadvantages. Zeira (1976) has identified several major problems :

1. An ethnocentric staffing policy limits the promotion opportunities of HCNs, which may lead to reduced productivity and increased turnover among that group.

2. The adaptation of expatriate managers to host countries often takes a long time during which PCNs often make mistakes and make poor decisions.

3. When PCN and HCN compensation packages are compared, the often-considerable income gap in favour of PCNs is viewed by HCNs as unjustified.

4. For many expatriates a key international position means new status, authority, and an increase in standard of living. These changes may affect expatriates' sensitivity to the needs and expectations of their host-country subordinates.

6.3.2 Polycentric Approach :

A polycentric staffing policy is one in which HCNs are recruited to manage subsidiaries in their own country and PCNs occupy positions at corporate headquarters.

The main advantages of a polycentric policy are :

1. Employing HCNs eliminates language barriers, avoids the adjustment problems of expatriate managers and their families, and removes the need for expensive cultural awareness training programme

6.3.3 Geocentric Approach :

Geocentric approach to recruitment is hiring the best people to fill our positions without regard to where they come from or where they live. This means :

Hiring remote employees :

We use this option when we want to hire someone at a place where we don't have offices. For example, if we want a customer support agent in another time zone to support our customers there.

Relocating our employees :

This includes both bringing foreign talent into our parent country and relocating people to a new host country. We use this approach when we need someone to be physically present at a specific location, but the best person for the job is living elsewhere.

1. To use the geocentric approach, we need to have a global outlook on recruitment. For example, whenever a position opens at a host country or our parent country, the hiring team could:

2. Advertise on global job boards first, before using local job boards mentioning

the location of the job clearly. Also, advertise on job boards focused on remote work when possible.

3. Source candidates online without looking at their current location.

4. Check our global employee database to find internal candidates who may wish to relocate.

5. Ask recruiters to suggest candidates they met at international career fairs or events.

6. Ask for referrals from our existing employees, as they may have someone in their network who could fit in this position and be willing to relocate.

6.3.4 Regiocentric Approach :

The regiocentric approach to recruitment means that we hire or transfer people within the same region (like a group of countries) to fill our open positions. For example, we might decide to transfer employees within Scandinavian countries. So if we want to hire someone in Sweden (a host country) we could transfer one of our employees from Denmark, a host country in the same region.

To the regiocentric approach when the costs of transferring an employee from a host country are lower than transferring them from the parent country. When deciding to use this approach, take into account any language or cultural barriers that may exist.

Table 6.1 : Advantages and disadvantages of using parent, host and third country national

	Advantages	**Disadvantages**
PCNs	• Greater control of operations with the subsidiaries. • Familiarity with the goals, aims, policies and practices of the headquarters. • Cultural similarity with the headquarters, assuring the transfer of business policies. • Greater effectiveness in the communication with the headquarters. • Higher technical and managerial qualifications.	• High cost. • Problems of family adjustment, especially if partners of managers are unemployed. • Potential difficulties adapting to the foreign language and the social, economic and political-legal environment. • Do not trust the host-country employees.
HCNs	• Greater knowledge of the local economic and political conditions. • Lower costs than the use of PCNs. • Provide local employees with	• Greater difficulty controlling of the operations of the subsidiaries. • Difficulties transferring specific business policies and practices.

	promotion opportunities, improving the acceptance of the firm in the locality.	• Hinder the balance between local demands and international strategies.
TCNs	• Assure the correct balance between technical skills and managerial experience. • Help to develop a reserve of international managers. • Normally involve lower costs than the use of expatriates.	• Represent less opportunities for international development for local employees. • Host-country's sensitivity with respect to nationals of specific countries.

6.4 ISSUES IN STAFF SELECTION :

There are various issues which have to be taken care before selecting the expatriates for an international assignment. The main advantages and disadvantages of utilising the various nationality groups available to the multinational that is, Parent-country Nationals (PCNs), Third-country Nationals (TCNs) and Host-country Nationals (HCNs) is analysed prior to selection.

6.4.1 Managers Selection :

The advantages and disadvantages of selecting the various managers are analysed as :

(a) Parent-country Nationals :

Advantages :

    (i)   Organisational control and coordination is maintained and facilitated.

    (ii)   Promising managers are given international experience.

    (iii)   PCNs may be the best people for the job because of special skills and experiences.

    (iv)   There is assurance that subsidiary will comply with company objectives, policies etc.

Disadvantages :

    (i)   The promotional opportunities of HCNs are limited.

    (ii)   Adaptation to host country may take a long time.

    (iii)   PCNs may impose an inappropriate HQ style.

    (iv)   Compensation for PCNs and HCNs may differ.

(b) Third-country Nationals :

Advantages :

    (i)   Salary and benefit requirements may be lower than for PCNs.

    (ii)   TCNs may be better informed than PCNs about host-country environment.

Disadvantages :

    (i)   Transfers must consider possible national animosities (example, India and Pakistan).

    (ii)   The host government may resent hiring TCNs.

    (iii)   TCNs may not want to return their own countries after assignment.

(c) Host-country Nationals :

Advantages :

    (i)   Language and other barriers are eliminated.

    (ii)   Hiring costs are reduced, and no work permit is required.

    (iii)   Continuity of management improves, since HCNs stay longer in positions.

    (iv)   Government policy may dictate hiring of HCNs.

    (v)   Morale among HCNs may improve as they see career potent

Disadvantages :

    (i)   Control and coordination of HQ may be impeded.

    (ii)   HCNs have limited career opportunities outside the subsidiary.

    (iii)   Hiring HCNs limits opportunities for PCNs to gain foreign experience.

    (iv)   Hiring HCNs could encourage a federation of national rather than global units.

6.4.2 Female International Managers :

     The selection of female for international postings is a related issue in staff selection because multinationals are concerned with the various social norms with regard to women, which prevail in many countries.

Example :

    Some Middle Eastern countries would not issue a work visa to a female expatriate even if the multinational selected her. In many countries, social norms regarding the role of women do not apply to female expatriates because locals regard them as foreigners. This did appear to be the situation for female members of the U.S. armed forces station in Saudi Arabia during the Gulf War.

    Men in some cultures, such as certain Asian countries, do not like reporting to female managers, particularly foreign women, and therefore women should not be posted abroad. Such beliefs help create the glass border that supports the glass ceiling.

It is found that only 3% of U.S. expatriates were women. This shortage of women expatriates is found to exist because:

(a) U.S. MNC executives believe that women are ineffective, unqualified, and uninterested in foreign assignments.

(b) Corporations resist the idea of sending women abroad.

(c) Foreign prejudices against women like prejudice of being a foreigner, dual-career families etc. would tend to make them ineffective.

(d) Many foreign clients refuse to do business with women.

(e) Men must be assigned in many locales to provide the required conservative corporate image.

(f) It is unreasonable to send women into some countries, such as Pakistan or Saudi Arabia.

Indian women have a track record holding important political positions too few have achieved similar success in ranks of business management like Indira Nooyi, Kiran Majhumdar, Chanda Kocchar, etc. Progress in this area is still held back by traditional beliefs that women are second class citizens whose place is in the home. More women excel in politics and in elected offices; their acceptance and interest in corporate boardrooms are increasing gradually. It is therefore important that HR staff keep up-to-date with changing legislation in the countries in which the multinational is involved.

Generally a work permit is granted to the expatriate only. The accompanying spouse or partner may not be permitted to work in the host country. Increasingly, multinationals are finding that the inability of the spouse to work in the host country may cause the selected candidate to reject the offer of an international assignment.

Selecting TCNs :

When selecting TCNs from within its own operations, the individual factors identified – technical ability, cross-cultural adaptability, and family requirements influence their selection. Situational factors may dominate the selection decision – such as lack of suitably qualified or available PCNs. The issue of work permits may be crucial determinate in the ability to use TCNs, as governments would prefer to see their own nationals employed. It may be harder to justify the use of TCNs than PCNs.

For companies developing a geocentric staffing policy, transferring subsidiary staff to other subsidiaries, as well as to headquarters, is an important part of creating an international team. When recruiting and selecting external candidates for TCN positions, there may be a danger that the multinational will place more emphasis on the potential candidate's ability to fit into the multinational's corporate culture rather than on cross cultural ability.

An emerging trend is the use of foreign-born nationals, recruiting from ethic groups living abroad.

Example :

U.K. multinational may select a Canadian-born Chinese to head up its Chinese facility. The

majority of expatriate managers working in China were overseas Chinese from Malaysia, Singapore, Hong Kong and Taiwan. The underlying assumption

appears to be that such appointments will reduce cross-cultural difficulties.

Selecting HCNs :

The multinational must observe the host-country's legal requirements and social customs for hiring staff. Appointing a HCN as the HR manager is attractive when the strategy is to appear as localised as possible. It is a way of ensuring that the local operation conforms to local standards, thus avoiding the "bad press" that can result from non-adherence.

Mode of entry is an important consideration. If the multinational establishes its own facility, it has more discretion in its hiring practices. Entry through acquisition generally means a ready-made workforce initially.

Example :

South Korean multinationals have tended to follow a "growth-through acquisition" strategy, and have generally encountered more staffing and labour problems than have Japanese multinationals that preferred a "green field sites" strategy. Some Western firms entering China have found staffing to be somewhat problematical, as state-owned partners often insist that all, or almost all, existing employees are utilised by the joint venture.

In the recruitment and selection process, multinationals must address the issue of Equal Employment Opportunity (EEO) for employees in all employment locations.

Example : Mandatory retirement and hiring ages are illegal in the United States and some other countries, but remain a legal requirement in other countries.

Equal employment opportunity laws are expressions of social values with regard to employment and reflect the values of a society or country. In parts of the Middle East, Africa, Asia, and Latin America, women have tended to have a lower social status and are not universally employed.

Multinationals must be aware of legislation and ensure subsidiary compliance where appropriate. Obeying Local EEO Laws: In 1993, one of the Hyatt hotels in Australia had to explain to the Equal Employment Opportunity Commissioner on national television that why it was circulating an internal memo that violated Australian Equal Employment (EE) legislation. The internal memo concerned was from a Japanese Hyatt hotel that had vacancies for two young single males. Under Australian EE law, these constitute age, marital status, and sex discrimination respectively, so the memo violated Australian law on three counts. The hotel's defence that such circulation of internal job vacancies was normal company practice was not acceptable. The EE Commissioner did recognise that special circumstances may have been behind the internal memo–that the positions were traineeships and that the persons would share accommodation in a male-only dormitory.

6.5 SELECTION PROCESS :

Selection is the process by which the organisation chooses from among the applicants,

those people who are perceived the best meet the job requirements. For each candidate, the organization evaluates candidate skills, education, and experience to find the people who best 'fit' the particular job specification. Ideal selection identifies the best fit between the person and the job.

Example :

Employee Selection at Mitsubishi for the U.S. based Mitsubishi-Chrysler joint venture auto plant, employees are selected the Japanese way.

The selection process lasts three days.

On the first day, applicants are required to perform tasks that mimic factory jobs. Work-related tests are followed by a series of written, medical, and drug tests and a final screening by plant supervisors.

The selection process tests individuals for high level of skills, dedication to their work, an aptitude for learning new work methods, teamwork is expected. Those who are selected must go through a rigorous training programme, where they learn technical skills, interpersonal skills, creativity facilitation, and idea-generation. They are taught efficiency in the form of the Japanese philosophy of 'kaizen', or continual improvement. This basic training is followed by several weeks of on-the-job training. Later, promotion decisions are based, in part, on how well candidates do in management development seminars and in-basket exercises. In any respect, human resource management is a priority task in Japanese firms.

Mitsubishi's relations with its U.S. employees seem to be faring well, as the firm reports that over 50% of its U.S. sales are vehicles that were manufactured in the U.S. (Business Week, 1988). There are seven basic factors in the selection process:

1.   Application forms

2.   Interviewing

3.   Assessment centres

4.   Employment testing

5.   Reference checks

6.   Physical examinations

7.   Selection validation

6.6 SELECTION CRITERIA :

Selection is a two-way process between the individual and the organisation. A prospective candidate may reject the expatriate assignment, either for individual reasons, such as family considerations, or for situational factors, such as the perceived toughness of a particular culture.

The factors involved in expatriate selection, both in terms of the individual and the

specifics of the situation concerned are as follows :

6.6.1 Technical Ability :

Technical and managerial skills are an essential criterion for selection. U.S. companies seem to focus their selection efforts on one single criterion – that oftechnical competence – despite the importance of all the other criteria co-related to interaction successes.

Reinforcing the emphasis on technical skills is the relative ease with which the multinational can assess the potential candidate's potential, since technical and managerial competence can be determined on the basis of past performance. Since expatriates are usually internal recruits' personnel evaluation records can be examined and checked with the candidate's past and present superiors.

Fig. 6.1 : Factors in Expatriate Selection
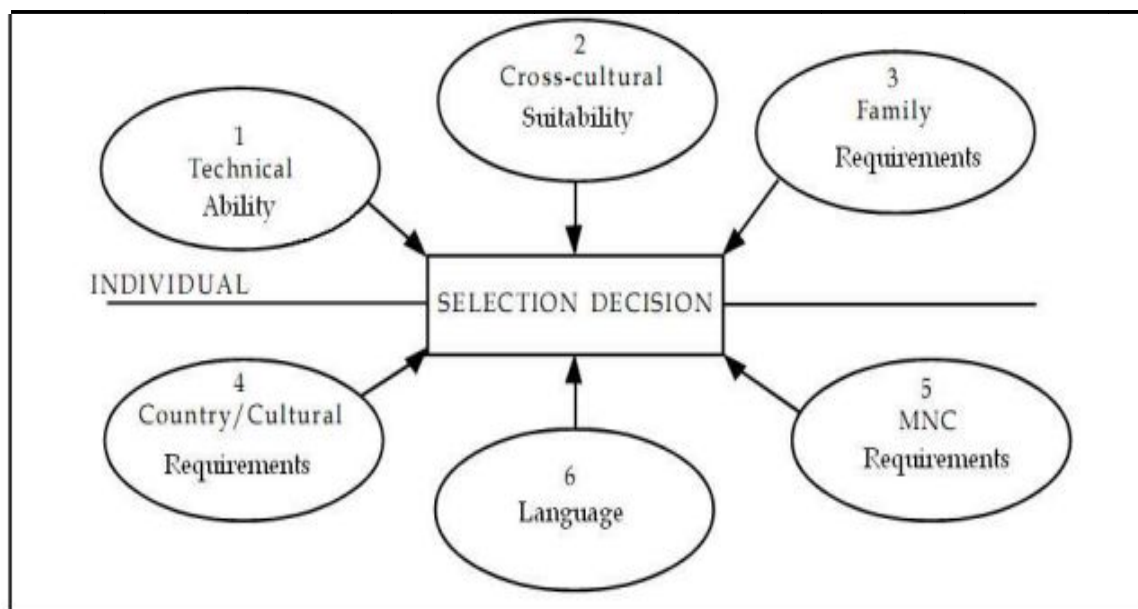
6.6.2 Cross-cultural Suitability :

The cultural environment in which expatriates operate is an important factor in determining successful performance. Apart from the technical ability and managerial skills, expatriates require cross-cultural abilities that enable the person to operate in a new environmental. These include: cultural empathy, adaptability, diplomacy, language ability, positive attitude, emotional stability, and maturity.

6.6.3 Family Requirements :

The contribution that the family, particularly the spouse, makes to the success of the international assignment.

Example :

U.S. expatriates and their spouses working in Japan, Taiwan and Hong Kong found

that a favourable opinion about the international assignment by the spouse is positively related to the spouse's adjustment. The adjustment of the spouse was found to be highly correlated to the adjustment of the expatriate manager. Reluctance on the part of Australian firms to include spouses in the formal selection process because it was considered to be outside their domain, and could evoke civil liberties concerns.

6.6.4 Country / Cultural Requirements :

Some regions and countries are considered 'hardship postings' – remote areas away from major cities or modern facilities, or war-torn regions with high physical risk. Accompanying family members may be an additional responsibility that the MNC does not want to bear. There may be a reluctance to select females for certain Middle East or South East Asian regions. Indeed, some countries will not issue a work permit for a female. These aspects may result in the selection of HCNs rather than expatriates.

6.6.5 MNC Requirements :

The multinational may consider the proportion of expatriates to local staff when making selection decisions, mainly as an outcome of its staffing philosophy. Operations in particular countries may require the use of more PCNs and TCNs than would normally be the case, as multinational operating in parts of Eastern Europe and China are discovering. Other situational factors include :

(a) The mode of operation involved

(b) The duration of the assignment

(c) The amount of knowledge transfer inherent in the expatriate's job in the foreign operation.

6.6.6 Language :

The ability to speak a second language is an aspect often linked with cross cultural ability. Language skills may be regarded as of critical importance for some expatriate positions. Some would argue that knowledge of the host-country's language is an important aspect of expatriate performance.

Another component to language as a situation factor in the selection decision is the role of the common corporate language. Most multinationals whether consciously or not, adopt a common corporate language as a way of standardising reporting systems and procedures. This is not an issue for PCN selection within multinationals from the United States, the United Kingdom, Canada, and Australia, where the chosen company language remains the same as that of the home country. It becomes a PCN selection factor for multinationals from non-English speaking countries that adopt English as the corporate language, unless the posting is to a country with a shared language.

Example: A Spanish multinational, using Spanish as the corporate language, selecting a manager to head a new subsidiary in Mexico, does not face the same language issue as a Spanish multinational, with English as its corporate language, selecting a manager to its U.S. facility. For the latter, fluency in English is important.

6.7 SUMMARY :

The four approaches to multinational staffing decisions—ethnocentric, polycentric, geocentric, and regiocentric—tend to reflect the managerial philosophy towards international operations held by top management at headquarters.

In the human resource cycle, recruitment and selection process are the main variables influencing directly the 'performance' as also the 'employee development processes'.

Recruitment is defined as the process of identifying and attracting the potential candidate from within and outside an organisation to begin evaluating them for future employment.

The four generic processes: selection, performance appraisal, rewards management and human resource development reflect sequential managerial tasks.

Human Resource Management is crucial to organisational competitiveness and productivity due to the growing diversity of the world's workforce and its increasing importance. The need to manage this diversity better has become a major challenge to the international manager.

There are various issues which have to be taken care before selecting the expatriates for an international assignment.

Indian women have a track record holding important political positions too few have achieved similar success in ranks of business management like Indira Nooyi, Kiran Majhumdar, Chanda Kocchar, etc.

For companies developing a geocentric staffing policy, transferring subsidiary staff to other subsidiaries, as well as to headquarters, is an important part of creating an international team.

Selection is the process by which the organisation chooses from among the applicants, those people who are perceived the best meet the job requirements.

6.8 KEY WORDS :

Culture :

It is a set of the set of shared attitudes, values, goals, and practices that characterises an institution, organisation or group.

Ethnocentric Approach :

An ethnocentric approach to staffing results in all key positions in a multinational being filled by Parent-country Nationals (PCNs).

Expatriate :

An employee who lives and works in a foreign country.

External recruitment :

Applicants are from outside the organisation.

Internal Recruitment :

Candidates are from the organisation itself. Source of internal recruitment is promotion from within, job posting and employee referrals.

Recruitment :

It is a process of identifying and attracting the potential talented candidates to apply for a vacancy in the organisation for the future employment

Selection :

It is the process of choosing the best applicant among the pool of the applicants.

Temps :

Process of recruitment of temporary, part-time and contract workers.

6.9 SELF ASSESSMENT QUESTIONS :

1. Being the HR of the company, justify the use of PCN, TCN and HCN (various nationality groups) in selecting managers for the international assignments.

2. Examine the factors to be taken into account while selecting expatriates.

3. Critically examine the factors that lead to the failures of the expatriates in the international assignments.

4. Explain the theoretical mode developed to explain the factors involved in effectively adjusting to overseas assignments.

5. What factors do you think plays a dominant role in failure of the expatriates?

6. Analyse the general and specific factors contributing to the success of expatriates.

7. Critically examine the factors that lead to the modification of the expatriate performance in international assignments.

8. Outline the reasons for the shortage of the women expatriates in international assignments. Justify giving examples.

9. Differentiate among PCNs, TCNs and HCNs.

10. How recruitment and selection process in international assignment affects the performance of the expatriates? Justify giving examples.

6.10 SUGGESTED READINGS :

1. David C. Thomas Essentials of International Human Resource Management, (2013) Sage Publications

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3.   Dr.B.V.Satyanarayan Babu, International Human Resource Management, Thakur Publications 2020

4.   Dr.Saroj Kumar, International Human Resource Management, Thakur

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5.   Veera Thakur & Jitendra Shukla , International Human Resource Management, Thakur Publications 2022.

Dr. V. Naga Nirmala

SELECTION TEST

Learning objectives :

➢   To learn the Drivers of Globalization

➢   To know the issues of Employee Selection

Structure of the lesson :

7.1   INTRODUCTION :

Globalisation refers to the process of integrating world economies. However much governments desire to retain economic identities, the powerful trend to integrate national economies is sweeping across the globe and countries are falling in line and embracing rapid globalisation. Whether it is the communist China or Cuba, the anxiety to join world economies is the most emerging concept today.

Evidence of globalization can be seen in the increased levels of trade, investment flows and mobility of people across the globe. Also called internationalization, the momentum of globalisation has been driven by several developments.

7.2   DRIVERS OF GLOBALISATION :

Companies seek to take advantage, by expanding their operations into foreign markets, in a number of ways. First, rapidly developing economies have huge markets. For companies, mostly in developed countries, which have been operating below capacities, the emerging markets offer immense opportunities to increase their sales and profits. Second,

many multinational companies (MNCs) are locating their subsidiaries in low wage and low cost countries to reduce their cost of production.

Third, changing demographics also add to increasing globalisation. Demographic changes are more visible in India. The country has the largest number of young people in the world today. India has nearly 65million children below 15 years of age, and as many as 400 million youngsters below the age of 23 years.

These young people will join the employable work force in the next few years, thus creating a huge surge of productivity, incomes and savings. India's young people can be an asset to the global economy because while India's population will be getting younger in the coming decade, the population of most developed countries will be getting older. The richer countries will face a shortage of employable people while India will have a surplus of them.

It is not just the number of people that India has, but also the technological and professional quotient of the people which proves a country's worth. India has a large low-cost and skilled work force. This large labour pool is projected to limit increases in wage rates for the next 20 years. In addition, India has a high availability of engineers, producing over 400,000 every year, next only to China's 490,000 and nearly 25times that of Thailand's 17,000. In addition to engineers, India produces 850,000 graduates every year and over 70,000 vocational skills certified professionals.

What do all these figures translate into ?

Multinational corporations could increasingly use India as a destination for outsourcing their core and non-core activities.

In addition, a large number of Indians are available and are prepared to take up overseas assignments. Fourth, regional trading blocs are adding to the pace of globalisation. WTO, EU, NAFTA, MERCOSUR and FTAA are a few of the major alliances among countries. Trading blocs seek to promote international business by minimising trade and investment barriers. Integration among countries results in efficient allocation of resources throughout the trading area, promoting the growth of some businesses and the decline of others, the development of new technology and products and the elimination of old. This process is creating a large scale restructuring of industries and firms in the EU, with relocation of industry and many cross border mergers and alliances.

But there are potential problems associated with such alliances. It is said that trading blocs might compete against each other. If this happens, free trade will exist within each bloc and each bloc will protect its market from outside competition with high tariffs. The possibility of the EU and NAFTA turning into "economic fortresses" that shut out foreign producers with high tariff barriers cannot be ruled out.

However, trading blocs generate more job opportunities. For example, between 90,000 to 160,000 jobs of various sorts were created in the US because of greater exports to Mexico (in the wake of the creation of NAFTA). There will also be easy movement of people among alliance partnering countries and a replication of the best HR practices. But there is

also the possibility of jobs being shifted to low-wage and low-cost countries within or outside a trading bloc.

Fifth, the declining trade and investment barriers have vastly contributed to globalisation.

The early period of the twentieth century witnessed high levels of barriers on trade and investment.

The aim of such restrictions was to protect domestic industries from foreign competition. Underlying the argument for protection of domestic industries is the infant industry reasoning. Tariff protection against the imported commodity is needed, so the infant industry argument goes, in order to allow the now higher-priced domestic producers enough time to learn the business and to achieve the economies of scale in production that are necessary to lower unit costs and prices. With enough time and sufficient protection, the infant will eventually grow to be directly competitive with the developed country producers, and would no longer need this protection. Ultimately, many domestic producers will be able to produce not only for the domestic market, without a tariff wall or government subsidies, but also to export their now lower-cost goods to the rest of the world.

The infant industry argument had several takers. Each country started imposing tariffs on the goods of other countries. This led to a cumulative curtailment of demand.

The Depression was characterised by a vicious circle—no jobs–no income–no demand–no supply–no income. In order to break this circle, a free-flow of goods and services and capital across the globe was thought necessary. In other words, barriers were required to be dismantled. Thus came into being the free trade regime. Figure 7.1 summarises how trade barriers were lifted over a period of time. As can be seen from the Table, the average rates of tariff have fallen considerably since the 1950s and now stand at 3.9 per cent.
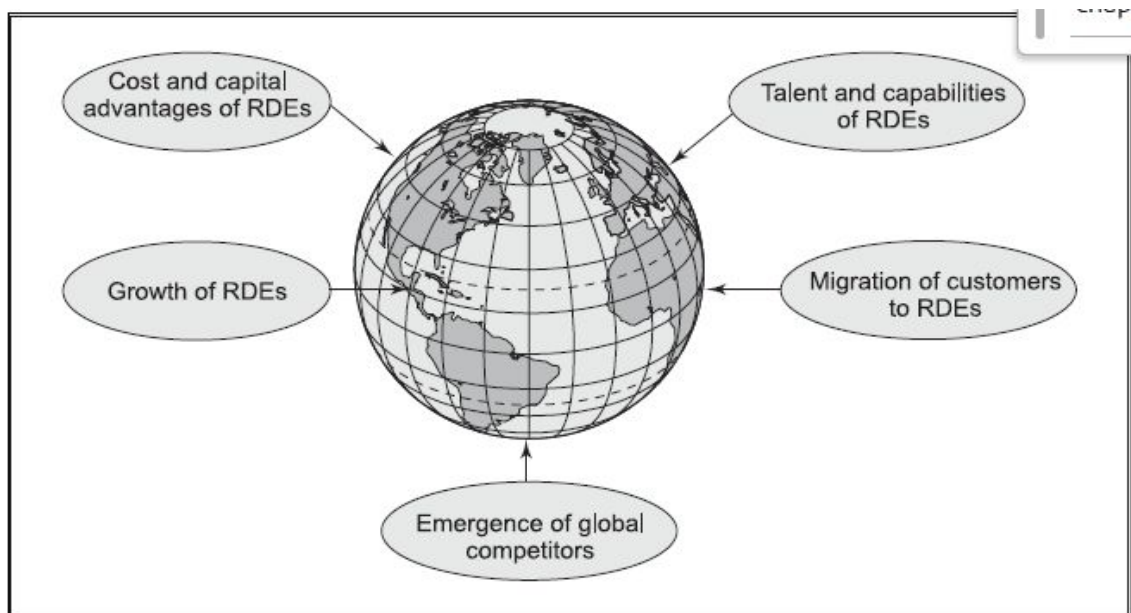

Fig. 7.1 Five characteristics of globalisation

Many MNCs are strategising to generate a large portion of their global sales from RDEs. ABB, Emerson, Schneider Electric and Siemens have seen their China sales grow substantially, to 5 per cent of their total sales. RDEs offer immense opportunities to minimise operating costs and capital investments. Companies that globalise their cost structures to include RDEs can realise savings of up to 20 to 40 per cent in the landed costs of their products, while reducing capital requirements by similar amounts. A major saving in operating costs stems from labour rates. A factory worker in the US or Europe costs $15 to $30 or more per hour, depending on where the factory is located, whether it is unionised or not, and the extent of benefits it provides. In contrast, a Chinese factory worker earns approximately $1 per hour, offering a fifteen fold cost advantage. In terms of lower capital investment, two fundamental factors reduce the need for capital in RDEs; First, less expensive plant infrastructure, machinery, and equipment; and second, the opportunity to make use of labour in place of costly technology.

RDEs offer not just cost advantage—they provide skill advantage too. The number of engineers in these countries is multiplying. China, for example, has added 380,000 science and engineering graduates to its talent pool in 2004. India is rich by 360,000, and Russia by 240,000. By 2010, China, India and Russia are likely to provide more than 2 million new scientists and engineers a year, compared to about 400,000 in the US. These graduates are not just adding to the numbers. The competence, particularly those of Indians, is globally competitive. The seven IITs and six IIMs in India have clearly established themselves as centres of excellence. "The IITs became islands of excellence by not allowing the general debasement of the Indian system to lower their exacting stands", wrote a reputed journal. "You couldn't bribe your way to get into an IIT. Candidates are accepted only if they pass a grueling entrance examination. The government does not interfere with the curriculum, and the workload is demanding. Arguably, it is harder to get into an IIT than into Harvard or the MIT."6 Obviously, in both blue and white collar labour pools, RDE work forces have demonstrated that they are talented, trainable and eager to move up the skill ladder. Neeraj Agarwal, Principal, BCG India, said that global IT majors are ramping up their India presence very fast. He estimated that by 2020, India would have one of the largest workforce surplus of around 47 million, while countries such as the US, China and Japan would face a labour pool deficit of 17 million, 10 million and nine million, respectively.

Triggered by the first three currents—growth of RDE markets, the continuing cost and capital advantages and the development of talent and capabilities in RDEs—more and more manufacturing companies are moving their production to RDEs. This migration has major implications for their suppliers. While the current penetration of RDE—sourced industrial goods into US and European markets is still relatively small, it is clearly gaining momentum. In some sectors, RDE imports are growing at rates as high as 30 per cent per year.

The relocation of major industrial sectors has serious implications for the supplier base in the home markets. If these suppliers do not act quickly their businesses will shrink. Most companies need to evolve a two-fold strategic plan; to fill market gaps at home, and also to follow selected customers to their new locations.

The emergence of RDE based global competition is the last dimension delineated by

the BCG. As economies of RDEs grow at breakneck speed, large-scale global competitions emerge from these countries.

India's Bharat Forge is one example of a company which is emerging as a strong global competitor. It recently made big news by acquiring a well-established $150 million German engineered-components company. Tata's acquisition of Corus is another example. The Haier Group of China is a similar instance.

Companies everywhere are required to monitor the emergence of RDE competitors in their industries, to understand the extent and timing of a possible threat or opportunity, assess their own vulnerabilities as well as the advantages they may have over the new competitors, and have action plans ready for various contingencies.

Seventh, there is money in international business, and no organisation would wish to miss the opportunity. HCL, for example, earned 63% of its total revenue from the US and 32% from Europe, a total of 95%.

Similarly, 90% of the total earnings of Infosys are from foreign markets (62% from the US and 28% from Europe); Wipro earns 56% from the US and 30% from Europe, totaling 86% and TCS also has foreign revenues to the extent of 80% (51 percent from the US and 29% from Europe). It is not just Indian companies alone. Even foreign companies earn huge revenues from overseas markets.

7.3 ISSUES IN EMPLOYEE SELECTION :

The following four issues are relevant in the context of staffing global businesses.

- Linking staffing plans with the evolution of the MNC

- Staffing orientation

- Managing expatriates

- Female expatriates
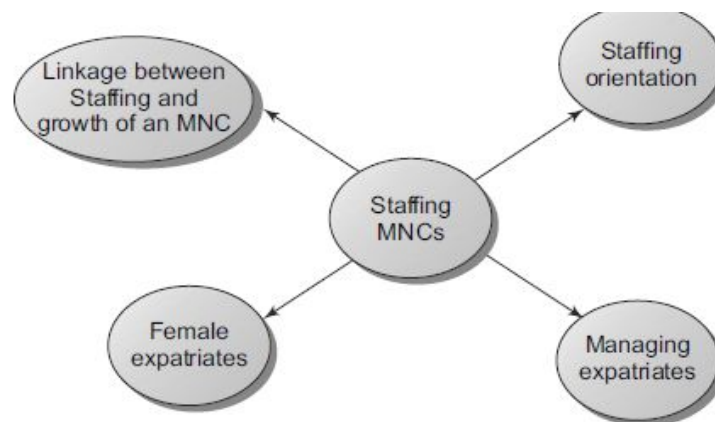
Linking Staffing Plans with the Evolution of an MNC Staffing strategies differ based on the life cycle of the MNC. Table 7.1 identifies the staffing challenges and role of the parent unit, as the host unit evolves into a mature organisation.

Table7.1:Linkage of staffing plans to phase in the Evolution of Multinational Enterprise

Stage in Unit life cycle	Staffing impetus	Hiring headcounts	Staffing approach	Role of parent MNC
Setting up the host unit	Focussed staffing challenges; pace is slow and micromanaged as the senior management team is put together	Normally 5–20	Usually an ethnocentric or a geocentric approach as the 'management team' is put together	Closely and carefully monitored by the parent MNC; literally handpicked
Establishing the technology team to begin core operational activities	Unit staffing challenges are stepped-up; hiring focusses on obtaining individuals with high emphasis on competency; common vendor linkages with placement consultants and RPO's (Recruitment Process Outsourcing)	Hiring headcount normally 20–200	Polycentric approach is preferred as the unit sets up its own operational teams	Role of the parent unit is somewhat reduced as the responsibility of the newly structured unit takes shape
Full-blown operations of the host unit with significant role in establishing global objectives and targets	Increased staffing challenges as hiring targets are stepped up, focus shifts to numbers, competencies receive reduced focuss as in-house skills development initiatives are established; newer linkages with third party like colleges, vocational institutes and training institutions	Hiring headcount varies between 200–1000 depending on nature of business	Distinctly polycentric approach as achievement of unit objectives becomes significantly self-contained	Role of parent unit is minimal. Focus on global framework for hiring, leaving the rest to the unit management.
Strong operational leadership at the unit level while globally consolid- ating with parent	Move to volume hiring as unit's global contributions are clear; focus on referral hiring; establishing long term liaisons with educatio- nal and training institutions	Hiring headcounts are steeper between 500–10000 depending on nature of business	Distinctly polycentric approach; could get to geocentric approach as labour costs provide the competitive advantage for the achievement of global objectives	Role of parent unit is at a strategic level, taking decisions to optimise global operating costs

Staffing Orientation Staffing orientations include ethnocentric, polycentric, regiocentric and geocentric approaches. Each orientation has its own strengths and weaknesses.

Of the four approaches, geocentric orientation represents the hallmark of an MNC. But pursuing a geocentric policy may be difficult but commitment from top management is what will drive the organisation to become truly global.

An international business generally hires employees from the host-country where the subsidiary is located (HCNs), parent-country nationals where head office is situated (PCNs)

and third-country nationals (TCNs) where the business has neither operating facilities nor headquarters being established. HCNs When an MNC adopts a polycentric approach for staffing, host country nationals are hired to staff subsidiary activities. Qualifications for managers from the host country follow mostly local practices. But to communicate with the MNC headquarters, host country managers often need the ability to speak and write in the home country's national language.

It is not that organisations hiring host country nationals totally ignore home country citizens. Such multinationals usually place home country managers in top management or technical positions. The key objective for these managers is to control overseas operations or to transfer technology to host country operations. For example, MNCs operating in East Asia and Australia, generally appoint host country managers, as staffing with expatriates is too expensive.

Staffing organisations with host country nationals has advantages in as much as these managers are familiar with the local cultural needs, involve a lower cost in hiring and maintaining, and there is continuity in management as locals stay longer in their positions. There are some disadvantages associated with the hiring of host country citizens. There arises, for example, difficulty in exercising an effective control over subsidiary operations. In addition, hiring HCNs may encourage a federation of nationals rather than global units.

PCNs An MNC following an ethnocentric orientation prefers to bring managers from home country to head operations in the subsidiary. Key managerial and technical positions are held by PCNs. Local employees fill only lower-level and supporting jobs. Sony Corporation's operations in the US typically follows this approach. Sony Corporation of America, a wholly owned subsidiary of Sony Corporation, handles local HR issues, but top executives at the organisation's operations across the US are Japanese managers.

Hiring PCNs has both advantages as well as disadvantages. Among the advantages are Familiarity with home country's goals and objectives and easy organisational control and coordination. Disadvantages include difficulty in responding to local cultural needs and denial of promotional opportunities to locals.

TCNs Bosch is a German automaker which hires TCNs. Its 1,80,000 employees are divided almost equally between Germany, and rest of the world. Its board of directors has representatives from various countries, including a US citizen who is a CEO of one of Bosch's largest divisions. Employees of different countries are often involved in hiring decisions. On the plant floor at Bosch, it is not always easy to tell to which country an employee belongs.

Organisations, as is with Bosch, that follow a geocentric staffing policy, hire people mainly from third country nations where neither subsidiaries nor headquarters are located. Recruitment and selection take place worldwide, whereby the most competent employees can be identified. The fit of the manager to the requirements of the job out weights any consideration of the individual's country of origin or country of job assignment. Obviously, capable managers adapt easily to different cultures and are usually bilingual or multilingual.

In addition, international assignment becomes a pre-requisite for a successful managerial career in organisations with geocentric orientation.

The HR function becomes highly complicated in a company which adopts a geocentric orientation to staffing. Every aspect of the HRM process—planning, hiring, appraisal, training and compensation—needs to be undertaken from an international perspective. Each foreign subsidiary needs its own self-contained HR unit to handle all ongoing employee issues.

As with PCNs and HCNs, hiring TCNs has both merits as well as demerits. Advantages of TCNs include better talent pool, development of international expertise, and help in building pan-global culture. More expenses and difficulty of importing managerial and technical employees are the main drawbacks of depending on TCNs.

Table 7.2 brings out the merits and demerits of HCNs, PCNs and TCNs more clearly.

	Advantages	Disadvantages
PCNs	Familiarity with home office goals, objectives, policies and practices	Difficulty in adapting to the and the socio-economic, po legal environment
	Easy organisational control and coordination	Excessive cost of selecting, training, and maintaining expatriate managers and their families abroad
	Promising managers are given international exposure. PCNs are the best people for international assignments because of special skills and experiences	Promotional opportunities for HCNs are limited
		PCNs may impose an inappropriate HQ style Compensation for PCNs and HCNs may differ Family adjustment problems, especially concerning unemployed spouses
HCNs	Familiarity with the socio-economic, political and legal environment, and with business practices in the host country	Difficulty in exercising effective control over the subsidiary's operations
	Lower cost incurred in hiring them as compared to PCNs and TCNs	Communication difficulties in dealing with home-office personnel
	Promotional opportunities for locals and consequently, their motivation and commitment	Lack of opportunities for the home country's nationals to gain international and cross-cultural experience
	Responds effectively to the host country's demands for localisation of the subsidiary's operations	HCNs have limited career opportunity outside the subsidiary
	Languages and other barriers are eliminated	Hiring HCNs may encourage a federation of nationals rather than global units
	Continuity of management improves since HCNs stay longer in positions Salary and benefit requirements may be lower than of PCNs	
TCNs	TCNs may be better informed than PCNs about the countries of assignment	Host country government may resent hiring TCNs

HCNs or PCNs? Keeping aside TCNs, what is the choice between HCNs and PCNs for heading subsidiaries in foreign locations ?

Table 7.3 Summarises the factors influencing the choice.

The factors fall into four categories :

1)   Parent country characteristics,

2)   industry characteristics,

3)   subsidiary characteristics and

4)   host country variables.

Table 7.3 : Factors Favouring PCNs or HCNs

(A) Parent country characteristics	Uncertainty avoidance, cultural distance between parent unit and subsidiary, size of operations, research intensity
(B) Industry characteristics	Financial institutions, need for control, need to customise
(C) Subsidiary characteristics	Age, acquired or green field project, performance, ownership pattern
(D) Host country variables	Education level, political risk, cost of living

With regard to the parent country / company characteristics, MNCs from countries with a national culture that seems high on uncertainty avoidance have a higher tendency to employ PCNs as heads of subsidiaries. Parent companies prefer to wield total control over subsidiaries and this predilection is better served by appointing own people as heads of subsidiaries. Direct control of subsidiary operations will also be more important if the level of cultural distance between home and host country is high. PCNs might fear that HCNs are not committed to the company. Size is positively related to the preference of PCNs. Larger MNCs have more PCNs as heads of subsidiaries since they have more managerial resources and are more likely to have a formal management development programme globally. Similarly, MNCs that are more research intensive tend to deploy talent from the head office to subsidiaries so that locals may be trained.

With regard to industry characteristics, the tendency is to have more PCNs as heads of subsidiaries in banking, security brokering and publishing and printing industries. Low percentage of PCNs are found in advertising, computing, electronics and food processing industries. The need to exercise greater control and the need to understand local needs force the dominance of PCNs in banking and their low presence in advertising industries respectively.

Subsidiary characteristics too influence the selection of PCNs or HCNs. The age of the subsidiary may not influence the choice between PCNs or HCNs to head subsidiaries. But

a newly set up subsidiary may attract a PCN to establish policies and procedures. Where a subsidiary is acquired, the choice is to retain the HCNs. If the subsidiary occupies a strategic role, the tendency is to depute PCNs to ensure united control.

Fully owned subsidiaries are more important to headquarters than those that are minority-owned-ones. Finally, control of subsidiary will be more important when a subsidiary is underperforming, and a direct headquarters intervention through a PCN is necessary.

Host country variables comprise education level, political risk and cost of living.

Where the education level in a host country is lower, qualified managers may not be available. PCNs need to be expatriated to fill the gap. Further, a high level of political risk in the host country is likely to make direct control through PCNs more important. It also makes the speed and clarity of communication allowed by the use of PCNs of vital importance. Where cost of living in the host country is lower, it is advantageous to employ HCNs for top positions in subsidiaries. Low cost of living has been a prime factor in making India an attractive destination for foreign direct investment. The recent hike in salaries of chief executives however, adds to the challenge. This might affect the low-cost advantage status the country has enjoyed so far. If the cost of living in the host country is higher, it may not be advisable to depute PCNs as they demand extra compensation to accept the assignments. Local managers have adjusted better to the high cost of living and would not demand additional compensation.

7.4 SELECTION CRITERIA FOR INTERNATIONAL STAFFING :

Final selection of candidates out of the short-listed names needs to be made with care. Several studies have been conducted to identify the requisites a foreign assignee should possess, if he or she were to be successful as an expat. One such study was made by Tung in 1981. After an extensive review of literature on the selection of expats, the researcher identified eighteen variables and grouped them into four categories :

a) technical competence,

b) relational skills,

c) ability to cope with variables and

d) family situation.

7.4.1 Technical Competence :

Technical skills are of paramount importance to perform successfully in his or her job. This is particularly true in an expat who is located away from the headquarters and any advice or help in case of doubt is not easily available.

7.4.2 Relational Skills :

This refers to the ability of the individual to deal effectively with his/her superiors, peers, subordinates and clients. This requisite becomes all the most critical in an expat who needs to function in an alien environment. Relational skills include multicultural sensitivity, interpersonal skills and language and communication skills.

7.4.3 Ability to Cope with Environmental Variables :

In the domestic situation, environment comprises political-legal, cultural, technological and economic factors. Knowledge about these factors is essential for a manager to be successful. In an international context, the cultural environment of the host country is more significant. The expat should be knowledgeable about the host country nationals, their tastes, attitudes, beliefs, practices, customs and manners. Knowledge about international laws adds to the competitive strength of the expat.

International managers of today need to see the world not just as a collection of national markets, but also as a source of scarce information, knowledge and expertise — the key resources required in the development and diffusion of innovation worldwide.

The global manager should be open-minded. This trait helps him or her come out of a parochial mind set and ask such questions as, "What is that we could learn from the leading-edge environmental trends in Germany? Or the most sophisticated consumers in Japan? Or from our toughest competitor who happens to be coming at us out of India?"

Just as important as open mindedness is the ability of the global manager to legitimise diversity. Diversity does not mean managing gender differences. It is about the total perspective. It is about legitimising diverse views in an organisation, including those based on cultural differences.

7.4.4 Family Situation :

This refers to the ability of the expat's family to adjust to living in the foreign environment. This factor determines the performance or lack of it of the assignee.

Another insightful study was made by Mark Mendenhall and Gary Oddou in 1985. The two researchers identified four major dimensions that could influence an expat's selection and adjustment. These dimensions are :

Self orientation includes activities that contribute to the expat's self-confidence, self-esteem and mental hygiene.

Others orientation consists of activities and attributes that enhance the expat's ability to interact effectively with host citizens and develop lasting friendships and close relationships with them and acculturate more easily in overseas assignments.

Perceptual dimension is concerned with the ability of expats to understand why foreign nationals behave the way they do and the ability to make correct attributions about the causes for host-nationals' behaviour.

Cultural toughness dimension refers to the situation rather than to people. Cultural toughness can modify the importance of the first three dimensions. In culturally tough countries (countries that are culturally very different from the home country), the first three dimensions became even more important than in culturally similar countries. For example, American expatriates assigned to a small village in Kerala shall have a tougher time in adjusting than if they had been assigned to Sydney in Australia, where the locals' culture is identical and they too speak English.

Figure 7.2 Criteria for Expatriate Selection.
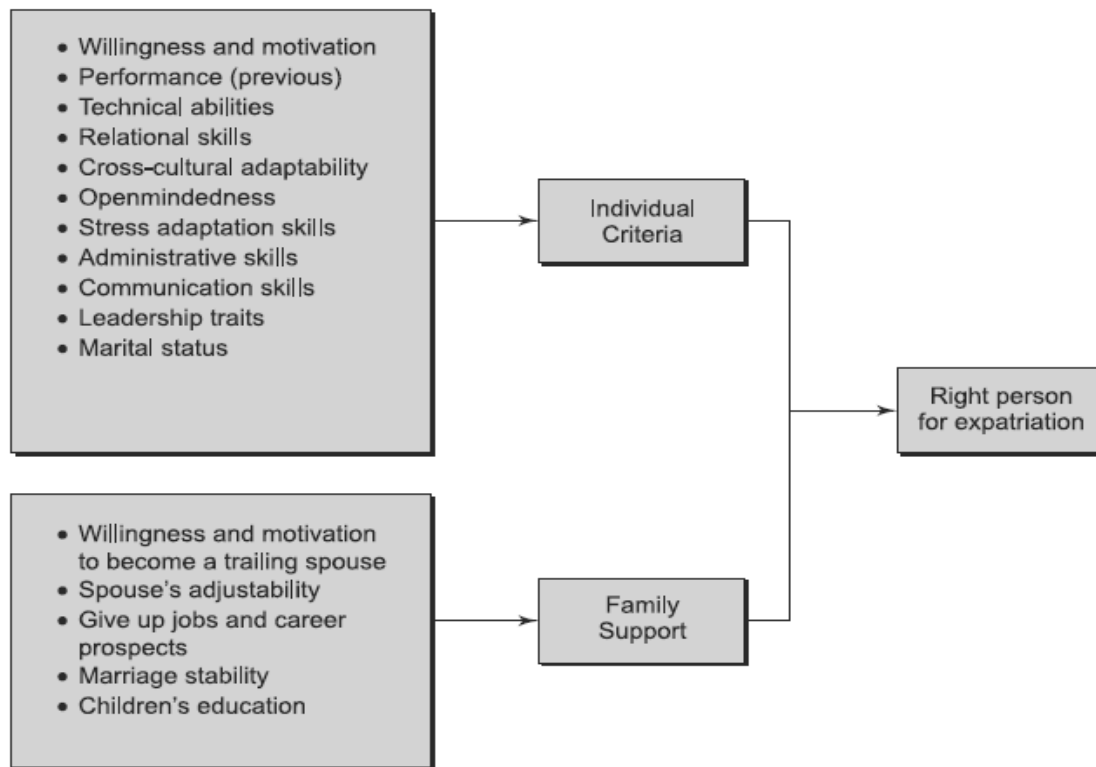
Lessons drawn from these and other studies boil down to specific criteria as Fig. 7.2 contains, to select expats. The criteria listed in Fig. 7.2 are self-explanatory.

A more recent and integrated model is proposed by Ronen's Model6 which is based on Tung's findings. It incorporates five kinds of predictors for a successful international assignment, as shown in Table 7.6 and elaborated further.

7.5 SUMMARY :

The selection process for an international assignment should provide a realistic picture of the life, work, and culture to which the employee may be sent. HR managers should prepare a comprehensive description of the job to be done. This description especially should note responsibilities that would be unusual in the home nation, including negotiating with public officials; interpreting local work codes; and responding to ethical, moral, and personal issues such as religious prohibitions and personal freedoms. Figure shows the most frequently cited key competencies for expatriates. Most of these competencies can be categorized as either cultural adaptability or communication skills. The following discussion examines those ideas.

The preferences and attitudes of spouses and other family members also are major staffing considerations. Two of the most common reasons for turning down international assignments are family considerations and spouses' careers. Nearly three-fourths of expatriates are married, and most are male. Of the expatriates who are married, only about 13% are not accompanied on overseas assignments by their spouse.

With the growth in dual-career couples, the difficulty of transferring international employees is likely to increase, particularly given work-permit restrictions common in many countries. Some international firms have begun career services to assist spouses in getting jobs with other international firms.

7.6 KEY WORDS :

Ethnocentric :

Approach in which key positions at the domestic and foreign operations are held by management personnel of headquarters.

Parent Country Nationals (PCNs) :

PCNs are managers who are citizens of the country where the MNC is headquartered.

Third Country Nationals (TCNs) :

TCNs are managers who are citizens of countries other than the one in which the MNC is headquartered or the one in which it is assigned to work by the MNC.

7.7 SELF ASSESSMENT QUESTIONS :

1. Briefly explain the Drivers of Globalization.

2. Discuss the issues of Employee Selection.

7.8 SUGGESTED READINGS :

1. International Human Resource Management (2008), PL Rao Excel Books.

2. International Human Resource Management (2013) Miguel Martine Lucio, Sage Publications.

3. Managing Global Work force (2013), Charles M.Vance, Eastern Economy Edition

4. International Human Resource Management (2018) Annamalo& Murugan, Discover Publishing House**.**

Dr. V. Naga Nirmala

INTERVIEWS FOR INTERNATIONAL SELECTION

Learning objectives :

➢   To understand the types of Interviews

➢   To discuss the Interview Questions

➢   To learn the Interview Process

Structure of the lesson :

8.1 INTRODUCTION :

Indeed, globalization has facilitated the expansion of organizational networks and how they perform employee recruitment and selection. Multinational organizations are being forced to adopt international staffing strategies to enable them to synchronize talents, cultures and work ethics that is essential for quality performance. Work ethics, standards, and best practices are performance drivers that must be instilled in all business units of a company.

However, this is achievable when there employee synchronization is done. Therefore, the study of the recruitment and selection in IHRM is critical for multinational organizations including local ones. The corporations are under obligation to have a better understanding of how to execute unbiased international employee recruitment. For instance, they should understand how to start the process, factors to consider, staffing orientation parameters, fundamental questions that must be asked and the appropriate approach.

The first important step in the recruitment and selection process is the company managers to perform an extensive human resource and operations audit. The audit is to establish the skill set that is missing within the value chain and the tasks that are not completed due to the insufficient number of employees. The facts must be established in both head offices and the subsidiary offices across the world. As noted by Collings & Scullion (2015), the audit gives a better understanding and creates an excellent platform for the company to know the number of employees to recruit, the nature of skills needed and the social background of the employees. It will also give them the opportunity to diagnose the positions and establish whether the best fit are candidates with experience or not and if the experience is needed, how many years are appropriate.

The next step is to understand the dynamics that characterizes international employee recruitment. That is the managers of the company must know the cost implications of the entire process, legal requirements in the respective nations where the employees are to be posted, regulations of hiring expatriates from other nations, cultural differences and transport logistics involved (Dowling, Festing & Engle, 2008). The elements are important given that they the capacity of determining the kind of staff that a company is likely to get. They also affect the company directly based on the resources involved because the process must be funded.

Once the dynamics are understood, it is prudent to highlight that the recruitment and selection process cannot start without the company ability to answer the following 3 questions.

The first question that must be asked is that from which country we should recruit. The question is to help the managers to advertise the available vacancies to a selection of nations or have it open to the whole world or all the nations. The decision on the matter assists the company to plan on how to approach the process and project the number of applicants to handle. For instance, when the advert or applications are welcomed from selected nations then cost implications, and other expenses would be lower as compared to when it is open to potential candidates globally.

The next question revolves around the technique to be used when perfoming recruitment and selection processes. The company must know the technique in prior to ensure that everything is done rightfully (Dowling, Festing & Engle, 2008). Similarly, the company must ask itself whether to centralize or decentralize the recruitment process. The question is good since some companies prefer having or conducting the recruitment processes at their headquarters while others prefer regional or local branches. According to Thoo (2013), the questions must be answered adequately to give a perfect indication of whether the

recruitment will be done locally, internationally or in a selected nations, the technique to be used and whether the process is to be centralized or decentralized.

To ensure that all the processes run smoothly, the questions are answered adequately, and the recruitment is done without hitches, the recruiting company must choose a viable IHRM approach. The company must choose a plan that gives a holistic framework of staffing. The realistic and recommended framework is one that aids the understanding of various factors. The first factor is the political and legal concerns. Human resource deployment is based on particular policies and bet practices. The guidelines vary in every nation given the environmental, legal and economic dynamics. For instance, there are remuneration standards that are set in some nations that employers must adhere to include educational standards. Various nations also have rigid employment policies that do not allow for expatriate importation or impose several legal requirements before any deal is struck.

For instance, Germany has its own employment policy framework that stipulates the responsibilities of employees and employers. Employers are expected to pay employees fairly; they should subject workers to favorable working conditions, register them to pension schemes and remit payments. Employees are equally expected to work diligently and perform as expected. The law is flexible on the transfer of human personnel. It provides a framework of importing and exporting human personnel. Particularly, the law requires one who is interested in working in Germany or deployed in the nation to have an expatriate work permit. The work permit is a must for foreigners, and it can be obtained by the employer on the employees' behalf. The law also stipulates the kind of experts or human personnel who should be imported or deployed. They include top level managers, accountants, and others with special skills who are identified to help a company enhance its competitiveness. The importation of low cadre employees is discouraged immensely.

The level of development in the foreign country forms the next factor in the IHRM hierarchy. Recruiting companies should always know the level of development in the nations where they seek to recruit from. They should establish the education standards, the international ranking of its experts in the particular field of interest, economic stability, culture and social dynamics. In Germany, these factors are fundamental. The system has been designed in such a way that international recruitments are based on the expatriate gaps. Only individuals with exceptional performance record, education standards, relevant fields and those from homogeneous cultural societies are accepted easily. The idea is to promote understanding, information sharing, and reduction of personal problems. The other factor that must be put in consideration is technology and nature of the product (Thoo, 2013). Effective international recruitment should be based on the technology that the company operates and the nature of products. It is justifiable and required that companies should employ individuals with skills that facilitate the operationalization of the machines. They should also be able to understand the nature of the products that are manufactured to promote value addition. In Germany, this factor is considered as the law requires that the recruited personnel should be technologically-oriented.

The other factor that informs the best approach to IHRM is the understanding of the organizational life cycle and cultural differences. The organizational life cycle is the stage of

performance that the company is at the moment of recruitment. Understanding of this aspect is vital since it determines whether to recruit or not depending on the performance assessment (Dickmann, Brewster & Sparow, 2016). In most cases, companies are not advised to recruit at the lower stages of their life cycle because of limited cash inflows. They should consider recruitment when they are nearing the end of growth stage and when at the peak of performance when they can sustain operational costs. It is pointless for accompany that is running huge losses or overburdened by expenditure to recruit more employees. Cultural differences of the employees or potential recruits must also be evaluated (Dickmann, Brewster & Sparow, 2016). A multinational company is under obligation to formulate proper ways of managing cultural differences among employees to ensure that performance is not affected. The differences can be used positively to help others learn new practices and ways of life that in turn enhance their ability to work anywhere in the world. This is achievable when the employees interact affectively. In Germany, cultural differences are not a hindering factor for foreign employees' acceptance (Dickmann, Brewster & Sparow, 2016). The nation allows and accepts employees from different parts of the world non-discriminatively.

Based on the facts presented, the honors are to the multinational companies that must design the best approach to IHRM to enable them to realize optimal performance levels.

Employee selection and recruitment procedure/criteria in the context of global business:

International staffing remains a fundamental performance determinant that must be undertaken transparently and in adherence to a well-structured system. The IHRM recruitment process should not be strenuous but inclusive. The first task in the process should be to identify the existing opportunities or gaps to be filled in the organization including all its branches (Collings & Scullion, 2015). It would enable managers to know the number of employees needed and plan on how to do the recruitment effectively. Once the existing gaps are established, the advertisement for the positions should then follow. The advert is to call for qualified candidates to make or submit applications. It is one of the major steps that determines the success of the process given that it influences the level of response.

Due to this, it must be conducted on popular media platforms to ensure that the information is widely conveyed. For multinational organizations, this can be done through international journals, media stations, and newspapers. The next step involves sorting of the applications received to have the best for short listing (Collings & Scullion, 2015). Short listing is then done, and the qualified candidates are called for interviews that can be oral, written or both. The purpose of the interview is to have one on one encounter with the applicants with the aim of establishing their potentials regarding communication, intelligence, and perspective to life including other factors. Successful candidates from the process are hired to begin work at the designated workstations.

According to Collings & Scullion (2015), the selection process should be based on diverse issues that multinational organizations must observe to ensure success. The issues or factors include staffing orientation, linking of the staffing plans with the evolution of MNC and managing expatriate to ensure that they deliver and the possible causes of failures are eliminated. The linking of employees involves setting up the host unit and having the right

employee in the right department to execute the appropriate task. It also entails the establishment of the required technology to aid the performance of core operations successfully (Dickmann, Brewster & Sparow, 2016). Staffing orientation is the other factor that cannot be ignored during the selection process. Its importance is attributable to the fact that multinational organizations adopt staffing approaches that at times requires expatriates to work in particular locations or regions they are not familiar to socially, culturally and politically.

8.2 INTERVIEWS :

Interviewing people costs money. As a result, after candidates are selected, good use of time is critical to making sure the interview process allows for selection of the right candidate. In an unstructured interview, questions are changed to match the specific applicant; for example, questions about the candidate's background in relation to their résumé might be used. In a structured interview, there is a set of standardized questions based on the job analysis, not on individual candidates' resumes. While a structured interview might seem the best option to find out about a particular candidate, the bigger concern is that the interview revolves around the specific job for which the candidate is interviewing. In a structured interview, the expected or desired answers are determined ahead of time, which allows the interviewer to rate responses as the candidate provides answers. This allows for a fair interview process, according to the US Office of Personnel Management1. For purposes of this section, we will assume that all interviews you perform will be structured, unless otherwise noted.

8.3 TYPES OF INTERVIEWS :

Interview processes can be time-consuming, so it makes sense to choose the right type of interview(s) for the individual job. Some jobs, for example, may necessitate only one interview, while another may necessitate a telephone interview and at least one or two traditional interviews. Keep in mind, though, that there will likely be other methods with which to evaluate a candidate's potential, such as testing. Here are different types of interviews :

8.3.1 Traditional interview :

This type of interview normally takes place in the office. It consists of the interviewer and the candidate, and a series of questions are asked and answered.

8.3.2 Telephone interview :

A telephone interview is often used to narrow the list of people receiving a traditional interview. It can be used to determine salary requirements or other data that might automatically rule out giving someone a traditional interview. For example, if you receive two hundred resumes and narrow these down to twenty-five, it is still unrealistic to interview twenty-five people in person. At this point, you may decide to conduct phone interviews of those twenty-five, which could narrow the in-person interviews to a more manageable ten or so people.

8.3.3 Panel interview :

A panel interview occurs when several people are interviewing one candidate at the same time. While this type of interview can be nerve racking for the candidate, it can also be a more effective use of time. Consider some companies who require three to four people to interview candidates for a job. It would be unrealistic to ask the candidate to come in for three or four interviews, so it makes sense for them to be interviewed by everyone at once.

8.3.4 Information interview :

Informational interviews are usually used when there is no specific job opening, but the candidate is exploring possibilities in a given career field. The advantage to conducting these types of interviews is the ability to find great people ahead of a job opening.

8.3.5 Meal interviews :

Many organizations offer to take the candidate to lunch or dinner for the interview. This can allow for a more casual meeting where, as the interviewer, you might be able to gather more information about the person, such as their manners and treatment of wait staff. This type of interview might be considered an unstructured interview, since it would tend to be more of a conversation as opposed to a session consisting of specific questions and answers.

8.3.6 Group interview :

In a group interview, two or more candidates interview at the same time. This type of interview can be an excellent source of information if you need to know how they may relate to other people in their job.

8.3.7 Video interviews :

Video interviews are the same as traditional interviews, except that video technology is used. This can be cost saving if one or more of your candidates are from out of town. Skype, for example, allows free video calls. An interview may not feel the same as a traditional interview, but the same information can be gathered about the candidate.

8.3.8 Non–directive interview (sometimes called an unstructured interview) :

In a non-directive interview, the candidate essentially leads the discussion. Some very general questions that are planned ahead of time may be asked, but the candidate spends more time talking than the interviewer. The questions may be more open ended; for example, instead of asking, "Do you like working with customers?" you may ask, "What did you like best about your last job?" The advantage of this type of interview is that it can give candidates a good chance to show their abilities; however, the downside is that it may be hard to compare potential candidates, since questions are not set in advance. It relies on more of a "gut feeling" approach.

It is likely you may use one or more of these types of interviews. For example, you may conduct phone interviews, then do a meal interview, and follow up with a traditional interview, depending on the type of job.

8.4 INTERVIEW QUESTIONS :

Most interviews consist of many types of questions, but they usually lean toward situational interviews or behavior description interviews. A situational interview is one in which the candidate is given a sample situation and is asked how he or she might deal with the situation. In a behavior description interview, the candidate is asked questions about what he or she actually did in a variety of given situations. The assumption in this type of interview is that someone's past experience or actions are an indicator of future behavior. These types of questions, as opposed to the old "tell me about yourself" questions, tend to assist the interviewer in knowing how a person would handle or has handled situations. These interview styles also use a structured method and provide a better basis for decision making. Examples of situational interview questions might include the following :

If you saw someone stealing from the company, what would you do ?

One of your employees is performing poorly, but you know he has some personal home issues he is dealing with. How would you handle complaints from his colleagues about lack of performance?

A coworker has told you she called in sick three days last week because she actually decided to take a vacation. What would you do?

You are rolling out a new sales plan on Tuesday, which is really important to ensure success in your organization. When you present it, the team is lukewarm on the plan. What would you do ?

You disagree with your supervisor on her handling of a situation. What would you do ?

Examples of behavior description interview questions might include the following :

Tell me about a time you had to make a hard decision. How did you handle this process ?

Give an example of how you handled an angry customer.

Do you show leadership in your current or past job? What would be an example of a situation in which you did this ?

What accomplishments have given you the most pride and why ?

What plans have you made to achieve your career goals ?

Types of interview questions that would be considered illegal.

Here are some examples :

National origin :

You cannot ask seemingly innocent questions such as "That's a beautiful name, where is your family from?" This could indicate national origin, which could result in bias. You also cannot ask questions about citizenship, except by asking if a candidate is legally allowed to work in the United States. Questions about the first language of the candidate shouldn't be asked, either. However, asking "Do you have any language abilities that would be helpful in this job?" or "Are you authorized to work in the United States?" would be acceptable.

Age :

You cannot ask someone how old they are, and it is best to avoid questions that might indicate age, such as "When did you graduate from high school?" However, asking "Are you over 18?" is acceptable.

Marital status :

You can't ask direct questions about marital status or ages of children. An alternative may be to ask, "Do you have any restrictions on your ability to travel, since this job requires 50 percent travel?"

Religion :

It's illegal to ask candidates about their religious affiliation or to ask questions that may indicate a religion-affiliated school or university.

Disabilities :

You may not directly ask if the person has disabilities or recent illnesses. You can ask if the candidate is able to perform the functions of the job with or without reasonable accommodations.

Criminal record :

While it is fine to perform a criminal record check, asking a candidate if they have ever been arrested is not appropriate; however, questions about convictions and guilty pleadings are acceptable.

Personal questions :

Avoid asking personal questions, such as questions about social organizations or clubs, unless they relate to the job.

Besides these questions, any specific questions about weight, height, gender, and arrest record (as opposed to allowable questions about criminal convictions) should be avoided.

HR professionals and managers should be aware of their own body language in an interview. Some habits, such as nodding, can make the candidate think they are on the right track when answering a question. Also, be aware of a halo effect or reverse halo effect. This occurs when an interviewer becomes biased because of one positive or negative trait a candidate possesses. Interview bias can occur in almost any interview situation. Interview bias is when an interviewer makes assumptions about the candidate that may not be accurate (Lipschultz, 2010). These assumptions can be detrimental to an interview process. Contrast bias is a type of bias that occurs when comparing one candidate to others. It can result in one person looking particularly strong in an area, when in fact they look strong compared to the other candidates. A gut feeling bias is when an interviewer relies on an intuitive feeling about a candidate. Generalization bias can occur when an interviewer assumes that how someone behaves in an interview is how they always behave. For example, if a candidate is very nervous and stutters while talking, an assumption may be made that he or she always stutters. Another important bias called cultural noise bias occurs when a candidate thinks he or she knows what the interviewer wants to hear and answers the questions based on that

assumption. Non-verbal behavior bias occurs when an interviewer likes an answer and smiles and nods, sending the wrong signal to the candidate. A similar to me bias (which could be considered discriminatory) results when an interviewer has a preference for a candidate because he or she views that person as having similar attributes as themselves. Finally, recency bias occurs when the interviewer remembers candidates interviewed most recently more so than the other candidates.

8.5 INTERVIEW PROCESS :

Once the criteria have been selected and interview questions developed, it is time to start interviewing people. Your interviewing plan can determine the direction and process that should be followed :

a)   Recruit new candidates.

b)   Establish criteria for which candidates will be rated.

c)   Develop interview questions based on the analysis.

d)   Set a time line for interviewing and decision making.

e)   Connect schedules with others involved in the interview process.

f)   Set up the interviews with candidates and set up any testing procedures.

g)   Interview the candidates and perform any necessary testing.

h)   Once all results are back, meet with the hiring team to discuss each candidate and make a decision based on the established criteria.

i)   Put together an offer for the candidate.

As you can see, a large part of the interviewing process is planning. For example, consider the hiring manager who doesn't know exactly the type of person and skills she is looking to hire but sets up interviews anyway. It is difficult, if not impossible, to determine who should be hired if you don't know what you are looking for in the first place. In addition, utilizing time lines for interviewing can help keep everyone involved on track and ensure the chosen candidate starts work in a timely manner.

Here are some tips to consider when working with the interview process :

Make sure everyone is trained on the interviewing process. Allowing someone who has poor interviewing skills to conduct the interview will likely not result in the best candidate. In a worst-case scenario, someone could ask an illegal question, and once hired, the candidate can sue the organization. UCLA researchers (Hanricks, 2011) calculated that plaintiffs win about half of hiring discrimination cases that go to trial, sometimes because of interviewers asking illegal questions. For example, "I see you speak Spanish, where did you study it?" is a seemingly harmless question that could be indirectly asking a candidate his or her ethnic background. To avoid such issues, it's important to train managers in the proper interviewing process.

Listen to the candidate and try to develop a rapport with them. Understand how nervous they must be and try to put them at ease.

Be realistic about the job. Do not try to paint a "rosy" picture of all aspects of the job. Being honest up front helps a candidate know exactly what they will be in for when they begin their job.

Be aware of your own stereotypes and do not let them affect how you view a potential candidate.

Watch your own body language during the interview and that of the candidate. Body language is a powerful tool in seeing if someone is the right fit for a job. For example, Scott Simmons, vice president at Crist Kolder, interviewed someone for a CFO position. The candidate had a great resume, but during the interview, he offered a dead-fish handshake, slouched, and fidgeted in his chair. The candidate didn't make eye contact and mumbled responses, and, of course, he didn't get the job (Reeves, 2006), because his body language did not portray the expectations for the job position.

Stick to your criteria for hiring. Do not ask questions that have not been predetermined in your criteria.

Once you have successfully managed the interview process, it is time to make the decision.

8.6 SUMMARY :

Traditional, telephone, panel, informational, meal, group, and video are types of interviews. A combination of several of these may be used to determine the best candidate for the job. A structured interview format means the questions are determined ahead of time, and unstructured means the questions are based on the individual applicant. The advantage of a structured interview is that all candidates are rated on the same criteria. Before interviewing occurs, criteria and questions for a structured interview should be developed.

Interview questions can revolve around situational questions or behavioral questions. Situational questions focus on asking someone what they would do in a given situation, while behavioral questions ask candidates what they have done in certain situations.

Interview questions about national origin, marital status, age, religion, and disabilities are illegal. To avoid any legal issues, it is important for interviewers to be trained on which questions cannot be asked. The halo effect, which assumes that one desirable trait means all traits are desirable, should also be avoided.

The process involved in interviewing a person includes the following steps :

Recruit new candidates;

Establish criteria for which candidates will be rated;

Develop interview questions based on the analysis;

Set a time line for interviewing and decision making;

Connect schedules with others involved in the interview process;

Set up interviews with candidates and set up any testing procedures;

Interview the candidates and perform any necessary testing; and

once all results are back, meet with the hiring team to discuss each candidate and make a decision based on the established criteria; then finally, put together an offer for the candidate.

Developing a rapport, being honest, and managing the interview process are tips to having a successful interview.

8.7 KEY WORDS :

Telephone interview :

A telephone interview is often used to narrow the list of people receiving a traditional interview. It can be used to determine salary requirements or other data that might automatically rule out giving someone a traditional interview.

Panel interview :

A panel interview occurs when several people are interviewing one candidate at the same time. While this type of interview can be nerve racking for the candidate, it can also be a more effective use of time.

Information interview :

Informational interviews are usually used when there is no specific job opening, but the candidate is exploring possibilities in a given career field.

Meal interviews :

Many organizations offer to take the candidate to lunch or dinner for the interview. This can allow for a more casual meeting where, as the interviewer, you might be able to gather more information about the person, such as their manners and treatment of wait staff.

8.8 SELF ASSESSMENT QUESTIONS :

1. Briefly explain the types of Interview.
2. Discuss about the Interview Questions.
3. Explain the interview Process.

8.9 SUGGESTED READINGS :

1. David C. Thomas Essentials of International Human Resource Management, (2013) Sage Publications.
2. International Human Resource Management CIPD - Kogan Page- 2016.
3. Dr. B. V. Satyanarayan Babu, International Human Resource Management, Thakur Publications 2020.
4. Dr. Saroj Kumar, International Human Resource Management, Thakur Publications 2022.
5. Veera Thakur & Jitendra Shukla , International Human Resource Management, Thakur Publications 2022.

Dr. V. Naga Nirmala

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LESSON – 9

PERFORMANCE MANAGEMENT

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Learning objectives :

- ➢ To discuss the issues in managing performance in the global context

- ➢ To identify the linkage between performance appraisal and salary increase

- ➢ To know the virtual assignment in managing the performance

Structure of the lesson :

9.1 INTRODUCTION :

Performance management becomes an integral part of corporate strategy as it serves many organizational goals. Besides contributing to enhanced performance, performance management helps identify employees with high potentials, facilitates reward performance equitably and delieanates an employee's needs for development.

These are all the activities that support the organisation's strategic orientation.

From the strategic management perspective, organisations can be grouped into any of the four categories :

- defenders,

- prospectors,

- analysers and

- reactors.

The philosophy of an organisation's PMS is shaped by the strategic orientation of the business unit.

Typically, defenders (low-cost producer) have cost control as the primary focus, predictability and a short-term focus are valued. Firms in this category seek to provide goods and services at a low cost, maintain quality and provide customer service. HR activities that are relevant in this context are development and training, as employees are hired at entry level, and high level vacancies are filled through promotions from within. Employees are expected to stay with the organisation for a long time. The PMS in such organizations is based on outcome / result as well as on behavioural traits.

Companies pursuing a prospector's strategy look for innovation. They design and produce new products and redeploy resources from discontinued products to the development of new ones. Innovation being the key approach, those organisational conditions that foster risk taking, cooperation, creativity and a long-term perspective are valued. Talented individuals are hired and training is mainly on-the-job. Employee turnover is high. Performance appraisal is result-based, because of the emphasis on skills identification and acquisition of human resources from external sources, as opposed to skill building within the organisation.

Companies with an analyser strategy operate in two types of product-market domains. One domain is stable while the other is changing. These firms are of some hybrid type in that they are both product innovators and competitors in long-run production lines. They attempt to exploit niche in the market. The personnel policies of these firms fall between the extreme of defenders and prospector's strategies. Firms spend heavily on training but talent is also 'bought' to fill higher level positions. These companies both promote (make) and hire (buy) human resources. PMS focuses on result as well as on behavioural traits.

Companies following a reactor's strategy are in highly competitive markets and are the slaves of their environments. Since these companies are essentially reactive, there are few systematic strategic implications. PMS focus could be result or behavioural trait based, depending on the philosophy of the management.

9.2 SETTING INDIVIDUAL PERFORMANCE GOALS :

In international business it is critical to closely link unit goals to individual / team goals, especially at the top and senior management levels. Goals are the future outcomes that

individuals and organisations desire and strive to achieve.

Popularly, goals seek to serve several purposes :

- Guide and direct behaviour in the direction of the goal.

- Offer benchmarks for employees to strive towards excellence.

- Reflect what the employees and managers consider as important.

As in the domestic context, goals in the international business, in order to serve the above purposes, must be Specific, Measurable, Achievable, Realistic and Timely (SMART).Specific and challenging goals serve to focus the individual's attention on precisely what is to be accomplished, and to arouse him or her to peak performance. In a wide range of occupations, people who set specific, challenging goals consistently outperform people who have easy or unspecified goals. Measurable, quantitative goals are useful as a basis for feedback about goal achievement. This element would require careful attention when setting goals for a subsidiary. Depending on the stage in the life cycle of the subsidiary, the measurable components of the goals would vary. During the early stages of an MNC establishing its unit (and up to1–2 years of successful operations) in the host country, the goals would be less measurable and as the unit matures in its operations, the goals evolve into measurable and tangible forms. During the early stages, the focus is on building a competent team of people, with roles and responsibilities aligned to establishing their respective functions. Focus is on making sure that the right person is in the right job and teams are clear of the unit's goals in addition to being aware of the global goals. Focus is on establishing policies and processes that align with the global unit, enabling the desired organisational culture to be created. As the unit matures, the focus shifts to sales, profits, headcount and achievement of the global goals of the subsidiary. Focus is on enhancing the role of the unit in the global map of the MNC and identifying the competitive advantage the unit could achieve for the MNC as a whole and drive performance in that direction.

9.2.1 Time-bound goals enhance measurability :

The time limit may be embedded in the goal itself or it may be explicitly stated. In case of setting goals for the subsidiary, the goals would have to be more accommodative of external factors that influence the achievement of the goals. Many firms work on standardised cycles, such as bi-annual or annual timeframes for assessing, where explicit time limits are assumed. Hence, if there is any uncertainty about the time period of the goal realisation, the time limits would need to be explicitly stated and reviewed frequently.

Therefore, goals need to be carefully identified, depending on the following factors :

Resources need to be provided for the individuals / teams who need to be supported in the achievement of the goals. Finance is fundamental to a lot of initiatives and the ability to make decisions at the unit level needs to be clearly identified. The power of authority and control on local spending would need to be ensured for smooth operational decisions.

Participation of the individual teams in goal setting for the unit goals needs to be insisted upon. The rationale for such involvement is the employee's acceptance and

commitment to the established goals, leading to favourable outcomes in terms of enhanced performance and positive attitudes.

There is also the need for prioritising goals. Prioritising allows for effective decision making about resource allocation. As time, energy and other resources become available, an individual / team can move down the list of goals in descending order. The key concern is to achieve top-priority goals, especially during the critical setting-up phase of the subsidiary's operations or during strategic expansion phases.

9.2.2 Identifying variables affecting Performance :

The performance of an expatriate depends on several variables which are distinct from the performance of an employee working in his or her home country. Performance of the non-expatriate is generally influenced by job extrinsic factors (e.g. working conditions and company policy) and job intrinsic factors (e.g. challenging job, career prospects). An expatriate's performance depends on several other influencing factors as Fig. 9.4 shows. But the impact of job extrinsic and job intrinsic factors on performance cannot be undermined.

Compensation Package :

Compensation is one of the key factors closely associated with expat performance. Perceived as a balancing factor for the 'emotional relocation' that the assignment demands, compensation and perquisites are critical to the effort expended on the assignment. An expat who is well compensated is definitely happier and more productive as compared to an assignee who feels he or she did not negotiate his or her compensation appropriately. It is, however, desirable that we recognise the impact of compensation on expatriate performance. Pay, according to Herzberg's two-factor theory of motivation, is a hygiene factor, which when adequately provided for removes dissatisfaction but fails to activate motivation and performance. But with many individuals, pay acts as remover of dissatisfaction as well as a booster for enhanced performance.

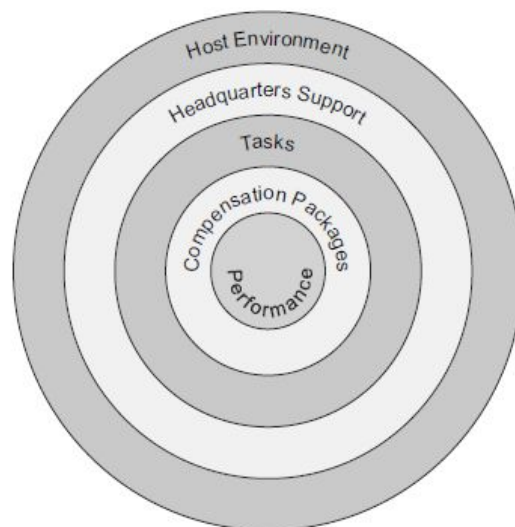Money continues to remain as one of the most significant motivators for expats.

Figure 9.1 Performance of Expatriate

Task as explained earlier, an expatriate is sent on an overseas assignment either as chief executive, system replicator, trouble shooter or as a simple operator. Whatever the nature of assignment, task has considerable impact on an individual's performance. Several reasons demonstrate the correlation between the two. First, nature of the job tends to influence performance. Going by this, a chief executive's assignment should influence performance more than the job of an operative. But this assertion is not always true. Performance depends more on the attitude of the expatriate than on the task itself. Many individuals are known to work hard and exhibit improved performance, whatever may be the nature of task. Second, a tougher task tends to evoke better performance than a job which is relatively easy to handle. People tend to show their best when the job is tough and challenging. Finally, how work is viewed by the expatriate also matters. For some expatriates work is worship and for others, it is only a means of living. Individuals who are passionate tend to exhibit improved performance than others for whom work is only a source of living.

Headquarters Support Home office support is crucial in expatriate performance. An assignee has accepted an overseas assignment, no doubt with the objective of making extra money or improving his career prospects; but there are other motives—loyalty to the organisation and commitment to make the firm successful. It is these altruistic motives which make assignees agree to work even in hostile environments.

It is necessary that the home office extends support and offers moral courage, particularly in times when the expatriate is passing through a culture shock.

The following are some specific support facilities required from the headquarters :

Organisational support in managing the practical problems of setting up home in a new culture is essential for enabling an expatriate to settle down.

The provision of timely psychological counselling for expatriates encountering problems of adjustment can contribute to their mental health and performance.

The families of employees should also be assisted in their efforts to find their feet on the ground in a new culture.

Though it adds to the cost, headquarters can arrange a short visit for the expatriate back to his or her home country so that he or she can meet up close kith and kin, refresh, get over depression, and fly again to the host country. More than arranging all required facilities and even organising a short visit to the home country, a reassurance that the head office completely supports the expatriate, can prove to be a source of confidence for the assignee to adjust and live in the host country.

Host Environment wields considerable influence on performance, particularly of the expatriate. If the host environment is hostile, expatriates are under constant pressure and often, there is a threat to their life itself. We have lost two brilliant men while on duty in Afghanistan. Expecting enhanced performance from expatriates operating in such an environment is unrealistic.

The form of ownership of the subsidiary is important too. For instance, it may be relatively easier to perform in a wholly owned subsidiary than in a joint venture with a state-

owned enterprise in China. Conflicting goals between the parent companies are a common problem within international joint ventures and can make the expatriate's job more difficult.

Similarly, the stage of the international business will influence the success of the expatriate. An assignee overseeing the establishment of a new facility in a foreign country, especially in a developing market, will face different challenges and constraints than one who is posted into a mature operation.

9.2.3 Cultural Adjustment :

The ability to live comfortably in an alien culture—is essential for the success of an expatriate. Multicultural adjustability refers to being sensitive to the host culture, the expatriate's multicultural sensitivity, language ability, diplomacy, adaptability, positive attitude, emotional stability and maturity.

It is not enough if the expatriate alone acquires cross-cultural adjustability. The trailing spouse too needs to acquire the ability to live in the host culture. Failure of the trailing spouse to adjust is often a major reason behind expatriate failure.
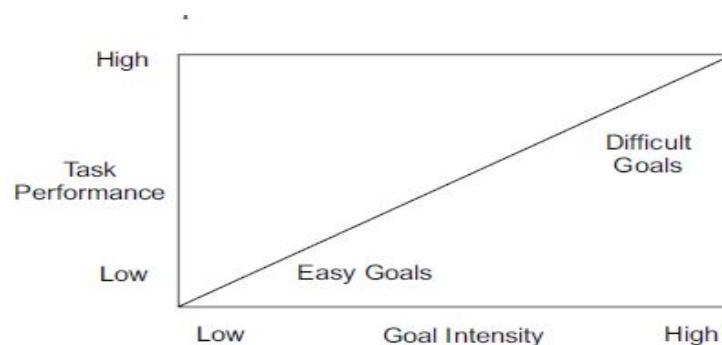

Figure 9.2 Goals and Performance

Technological advancements have flattened the world. People across the globe almost speak similar languages, eat similar food, wear similar dress, and listen to similar music. Walking down the streets of San Francisco, you find lots of Indian kids playing cricket, Indian grocery stores and restaurants. Adjustment to new culture is no longer an alien experience known to a few.

9.2.4 Appraising the Performance :

The international HR manager should decide on three key areas while assessing an expatriate's performance.

The key issues are :

    (i)   specifying performance criteria,

    (ii)   identifying the appraisers, and

    (iii) deciding on the frequency of appraisal.

Performance Criteria :

The criteria for assessing performance should be clear, relevant, practical and reliable

if assessments were to be meaningful. Basically, there are three categories of performance indicators :

- trait based,

- behaviour based and

- results based.

In the international context, it is a good blend of each that makes an effective performance management system. Given the tangible and intangible goals that a host unit needs to fulfil, it is critical to ensure that while objectives and targets are SMART goals, equal emphasis and weightage is provided in the appraisal system to take care of the intangible results that need to be achieved. Objectives like setting up a cohesive team, ensuring the creation of the desired global work culture and leadership values at the subsidiary level are examples of intangible goals.

9.3 TRAIT BASED ORGANISATIONS :

It tend to rate traits in conducting appraisals. Traits are abstract properties of individuals that cannot be generally observed directly, but can be inferred from behaviours. Traits generally identified for assessment are openness to other cultures, ability to live in other cultures, loyalty to the company, articulation and level of initiative. Focus here is on what a person is and not on what he or she does.

9.4 BEHAVIOUR BASED :

In some cases, organisations base their appraisals on behaviours, i.e. on what the person actually does. Behavioral measures are appropriate when the process used to accomplish the job is very important, and thus, behavior measures are used to emphasize how a job is done. For instance, an expatriate's performance will be judged on behaviors exhibited while communicating with host country citizens, socialising or partying with host nationals and coping with culture shock. Behavioural traits based appraisals go a long way towards building the desired corporate culture and organisational values. Most MNC's design appraisal systems that extensively take care of measuring and appraising on behavioural competencies exhibited by the expat / employees in the subsidiary.

9.5 RESULT BASED :

The most common measure of an expatriate's performance is outcomes, such as how many cars he or she has sold or how much profit the assignee brought into the organisation during the assignment, his or her adherence to target dates for commissioning plants / offices and establishing strategic alliances.

This approach identifies four critical perspectives on organisational performance that might act as the basis for effective performance criteria: the financial perspective, the internal business perspective, the innovation and learning perspective and the customer perspective.

The financial dimension reflects a concern that the organisation's activities contribute to improving short-term and long-term financial performance. Customer service perspective

measures such things as how customers view the organisation, as well as customer retention and satisfaction. Business process indicators focus on production and operating statistics such as order fulfillment or cost per order. The final component relates to the human resource—its potential to learn and grow. This perspective seeks to focus on how well resources and human capital are being managed for the company's benefits.

The balanced score card provides a balanced picture of current performance as well as the triggers for future performance. The score card helps managers align their business units, as well as their financial, physical and human resources, to the firm's overall strategy.

9.6 WHO ARE THE APPRAISERS ?

Appraisers are immediate managers / leaders at the host and parent locations, team members and clients. Self-appraisal is a common practice. In most MNCs, appraisal systems have a combination of these appraisers, which provides for a fair and balanced approach to appraisals.

Appraisals are commonly carried out by the immediate manager / leader, who evaluates the team member's performance on tasks as assigned. In fact, the reporting manager / leader is the most appropriate person at least for three reasons :

No one is more familiar with the team member's performance than the manager / leader.

Second, the manager / leader's authority tends to get undermined if someone else were to assess the performance.

Third, the manager / leader is also responsible to ensure that his or her team members is appropriately coached.

PMS provides inputs in outlining the training and development needs for the individual.

The assessment of a subsidiary manager's performance poses a problem. He or she works in a distant location, yet is evaluated by superiors at the headquarters. The manager / leader is denied the possibility of interacting with the expatriate face to face, to have a firsthand feel of the performance. Consequently, a subsidiary manager tends to be assessed according to subsidiary performance, with a reliance on hard criteria similar to those applied to heads of domestic units or divisions.

The performance of expatriates working as team members in subsidiaries is assessed by the respective heads of local units. Though subsidiary managers are the right choice to assess the expatriates' performance, there is the possibility of cultural biases distorting the assessment. Imagine a situation where the subsidiary head is a French and the expatriate is an Indian. Or the head of a subsidiary is a Japanese and the team member is a Chinese. The performance evaluation tends to be biased either for or against the assignee, because of the cultural predilections of the manager / leader.

Some common practices adopted by the industry are :

A significant differentiator in identifying appraisers in the international context is the matrix reporting.

It is a dual reporting to the functional as well as the unit operational head, whereby appraisal is carried out (usually independently) by the two reporting managers and then weighted out, depending on what percentage each manager deserves. It is usually a 50% weightage for scores by each of the reporting managers.

Use of multiple appraisers (popularly called the 360-degree appraisal technique) are increasingly being used to assess the performance of employees in domestic businesses. Given the cross-cultural dynamics, the 360-degree technique can be more effective in assessing an expatriate's performance.

The immediate superiors (in either the host country or home country) take the expatriate as the self appraiser, and the HR manager (either home-country or host-country based) can be associated with rating the performance of the expatriate.

The appraisal / review cycle is made shorter in order to encourage more frequent interactions and review discussions. Cross border travel is encouraged to enable more face to face interactions.

Frequency of Assessment :

How often the employees should be assessed is a relevant question. The general trend is to evaluate once in three months, six months, or once in a year. According to a survey conducted in 1997 by Arthur Anderson, 70 per cent of the organisations conduct performance appraisal since in a year. Many of these organisations are multinationals. New hires are assessed more often than the experienced ones. Frequent assessment is better than phased evaluation. Feedback in the latter is delayed and the advantage of timely remedial measures by the employer is lost. Frequent evaluation gives constant feedback to the managers, thus enabling them to improve performance, if there is any deficiency.

Providing feedback :

Feedback refers to the information provided about work behaviour and outcomes. Feedback controls the work behaviour of employees by directing actions through the provision of necessary feedback for corrective action. In addition, feedback promises rewards for future behaviour and thereby provides motivation. Therefore, such feedback through the performance appraisal activity is central to performance management.

The task of assessing performance and offering feedback in MNCs is compounded by time and distance. The physical distance involved between the headquarters and the subsidiary is vast and time zones between the two differ considerably. Interaction between head office staff and subsidiary managers is less frequent and a reporting system adds to the cost. One can always argue that advancements in telecommunication facilities, such as fax, e-mail, Internet connections and video conferencing help overcome the constraints posed by time and distance. These developments are no doubt useful in collecting and transmitting information, but cannot substitute face to face contact between subsidiary managers and corporate staff. And face to face interaction is essential to make a meaningful assessment of the performance and passing on the feedback. It is for this reason that international managers travel long distances and spend considerable time interacting with subsidiary managers in

host countries.

Opportunities for Improvement :

Performance feedback has a developmental aspect inasmuch as it highlights the need for training and development.

Conducting appraisals, offering feedback and initiating training and developmental measures are all part of performance management. These activities seek to provide opportunities to expatriates to improve, socialise and adjust to local environment ably. This is particularly relevant in international businesses where policies and practices change and re-socialisation is required.

Linking Rewards and Results :

The final activity in expatriate performance management relates to establishing linkages between performance and compensation. Rewards, monetary and non-monetary, should follow performance. Only then there is positive reinforcement to repeat performance. Performance may not take place if there is negative reinforcement or no link between results and rewards.

9.7 ISSUES IN MANAGING PERFORMANCE IN THE GLOBAL CONTEXT :

In the global context, performance management issues include cultural consequences on performance management, rewarding performance, managing underperformers and managing virtual teams. Additionally, assessing subsidiary performance is also a critical dimension, impacting performance management at HQ or host country.
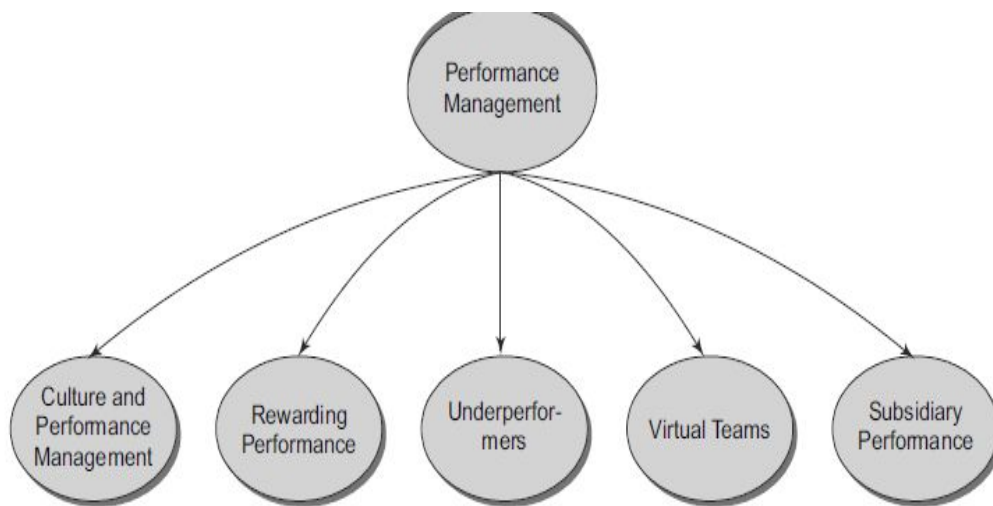

Figure 9.3 Issues in Performance Management

9.8 CULTURAL IMPLICATIONS ON PMS :

Culture has significant impact on designing and implementing PMS in different cultures. Hofstede's two cultural dimensions—power distance and individualism vs collectivism—are considered here for the purpose of bringing out the interface between culture and the PMS.

Collectivist vs. individualistic cultures differ in the way goals are designed and assigned. In a collectivist society, it is a common work practice to assign group goals and involve groups in deciding goals. Such work cultures enable a larger involvement of employees in organizational objectives, encouraging a lot more commitment towards the achievement of the goals as a group. The work style is collaborative and supportive towards ensuring that the desired goals are achieved

Table 9.1 Individualistic and Collectivist Societies and Performance Dimensions

	Individualist	Collectivist
Level of achievement	– Provide direct feedback to improve individual performance and self-identity	– Feedback should consider the individual's role in his/her group – Feedback should consider group harmony and relationships
	Horizontal	**Vertical**
Feedback approach	– Provide opportunity for individuals to participate in the performance evaluation	– Focus mainly on top-down communication and control – Avoid perceptions of managerial weakness by encouraging too much participation
	Low cultural context	**High cultural context**
Communication style	– Communication should be direct and explicit – Follow up verbal feedback with written summary of evaluation	– Consider the surrounding context of the feedback – Pay close attention to the body language of the individual – Be indirect in conveying feedback ("read between the lines")

(Source: Millman, Taylor and Czapiewski, 2002.)

In an individualistic society, it is common to assign goals to individuals, assess individual performance and reward individual achievement of goals. In such work cultures, individuals work in silos to facilitate the achievement of organisational goals; the key motivator is self actualisation. Those who fail to perform automatically get ejected from the system: The focus is on individual competency.

A step further in understanding collectivism and individualism is to add power distance to it.

Horizontal collectivism in a national context refers to a tendency of employees to group together within levels; e.g., those with similar designations, roles and responsibilities. Individuals are part of a larger group.

The tasks are usually clearly rationalised and assigned. Power distance in such societies is low. Horizontal individualism at the workplace indicates employees working and thinking individually while carrying out tasks and responsibilities. Tasks are normally assigned to individuals and each is clearly responsible for the achievement / non-achievement of the tasks.

Vertical collectivism refers to employees forming groups at a departmental level, with little or no attention to level/hierarchy between team members. Tasks are largely owned as a

team and the team works together to help each other and achieve the deliverables. Power distance in such societies is high.

Vertical individualism implies that employees are independent and held responsible for their deliverables.

Hierarchical levels are clearly defined and respected.

There are three ways in which cultural differences impact performance management :

1.   Goal commitment and participation in organisations

2.   Feedback—performance relationship

3.   Feedback seeking behaviour

Figure 9.4 Focus on Individulaism – Collectivism / Horizontal – Vertical

Goal commitment and participation in organisations can be differentiated based on different cultures. Collectivist societies would prefer team goals, team performance reviews and team rewards. Goal setting and employee/team participation in the goal setting exercise is most popular in countries ranking high on horizontal collectivism and vertical collectivism. Goals are best assigned in countries with high horizontal individualism. Cultures with high vertical individualism would distinctly prefer individual goals and targets, with clearly defined inter-dependence on the achievement of the goals and objectives.

Europeans and Americans rank high on individualism, implying less intrinsic motivation when choices were made for them by other authority figures or peers. Hence, the implication for PMS would be higher involvement in the goal setting and individual objectives / KRAs (key result areas) setting exercise at the beginning of the appraisal period, and the system must provide for self-assessment of the achievements.

Asian-Americans, who are highly collectivistic, are most intrinsically motivated when choices were made for them by trusted authority figures or peers. This would imply a higher level of 'assigning' goals and KRAs to individuals and an absence of self-rating provision in

the appraisal system would not adversely impact the success of the PMS in these countries.

The Feedback–performance correlation indicates that individualistic cultures respond

more favourably to one-on-one feedback, which is specific and provided in private. In collectivistic cultures, both group based and individual feedback is important and impact performance significantly.

Feedback Seeking Behaviour :

Feedback seeking behaviour is more common in individualistic cultures where the focus is on self and improvement to benefit the self. For example, Americans who rank high on individualism, are more likely to desire success feedback implying a 'ego-protection motive'. This indicates that negative feedback is restricted and applied rarely in these cultures. In Japanese culture, where collectivism scores high, it is inappropriate to seek for success feedback, and preference is to provide feedback on failures, implying an 'impression management motive'. This means that positive feedback credit goes to the group while individual drawbacks are what need to be communicated on a one-on-one basis. While the challenge for a PMS design is to be standardized across units in different cultures, it would require – a stronger focus on group level in collectivist cultures, and that the role of the supervisor in the PM process should be adapted to cultural specifics guidelines.

Rewarding Performance Globally :

The critical success factors that link performance appraisal to the compensation system are fairness and consistency, organisational results, linkages and merit awards.

Fairness and Consistency :

There needs to be clarity from the very beginning, about reward elements.

The criteria for rewarding must be established and well communicated to ensure consistency globally. This is a challenge given the different industry practices and market conditions in different countries where the organisation exists. Often, MNCs engage global consultants to help establish these reward systems, who would validate the fairness of the distribution of awards within local competitive norms. The objective is to ensure that strong performance management and accountability systems are in place so that employees perceive that performance is rewarded fairly and consistently, irrespective of where they are located.

Inclusion of Organisational Results :

The performance – reward scheme must emphasise on organizational results, not just individual performance. It is common practice in MNCs to link the rewards to the revenue / profits / growth generated. While it is relatively easy to assess the contribution of senior managers to the achievement of organizational objectives, linkages to large number of bottom line employees is limited.

Organisations manage this by assigning lower bonus components for lower level employees and increase it significantly as the roles move to senior and top management levels, with percentage of bonus linked to company results up to 30–40% of the total salary. The key challenge is to strike a balance between linkages to company results at a unit/subsidiary level vs. linkages to global targets for the MNC. This is a top management decision and the two models are equally popular. It is common for profit-centre

units/subsidiaries to focus on local goals and targets and for cost-centre units to focus on the global achievement of goals and targets.

Table 9.2 is an example of performance measures that link performance of local unit goals as well as global organisational goals to individual performance.

Table 9.2 Models in Linking Pay for Performance to goals

Levels/Grades	Fixed salary component	Pay for performance	Unit goals goals	Global organisational
E0	100%	–	–	–
E1	95%	5%	Yes	Maybe
E2	90%	10%	Yes	Maybe
E3	80%	20%	Maybe	Yes
E4	70%	30%	Maybe	Yes

9.9 LINKAGE BETWEEN PERFORMANCE APPRAISAL & SALARY INCREASE :

In order to encourage a global culture focused on meritocracy, it is common in organisations to link promotions and salary hikes to the PMS. This delinks salary increases, taking the form of 'entitlement'. It ensures that the system is meaningful to employees and is commensurate with their efforts and contributions. It is common in MNCs to use clearly established and openly communicated matrices that link a performance rating to a hike in percentage.

Table 9.3 Linking Performance to Salary Hikes

Performance Rating (1–5 scale)	% Hike in salary based on performance
< 2.5	2.5%
2.5–3	10%
3–3.5	12.5%
3.5–4	15%
4–4.5	17.5
> 4.5	20%

Merit Awards :

It is common practice in MNCs to provide for annual performance awards. These could be separate for the unit/subsidiary level or could be globally assessed and awarded in global forums to encourage a global culture. Such awards ensure that they pay specific attention to competencies and achievements that are in alignment with the global values of the organisation. Some key challenges here are :

How much compensation is to be paid ?

How would it differ for different units and the frequency of awards?

Awards are, most often, left to the governance of the local unit for independent implementation.

Managing Underperformance :

PMS must also be used to detect deficiencies or inadequacies and ascertain staff development needs, both individual and collective. The performance management process for an underperformer normally includes three clearly defined stages, as follows:

Stage 1 :

Setting expectations and monitoring performance—clear communication of the non-performance parameters are shared with the employee, quoting incidents and evidence of underperformance.

Stage 2 :

Discussing and documenting problem performance—areas of under-performance and are acceptable to the employee as action items. Ensure that the ways to improve are identified and discussed, indicating support to be provided and guidance / supervision expected.

Stage 3 :

Establishing and implementing consequences to poor performance—this last stage occurs when problem performance continues even after one or more performance discussions have been conducted.

The performance may then be rated as "unsatisfactory", in which case the employee is placed on probation for a period of 1–2 months, after being provided with a written notification of specific areas in which he or she is required to improve. If the probation is not satisfactorily completed, the employee is either terminated or asked to resign. Normally, he or she is entitled notice pay and outplacement counselling could also be provided. Organisations have clearly identified policies that provide for identifying and managing underperformers.

9.10 VIRTUAL ASSIGNMENTS :

Managing Performance in Teams without Borders

Virtual assignments are increasingly becoming a collaborating tool assisting MNCs in achieving global advantages. Collaborative work is critical in achieving a distinct competitive advantage. It is a known fact that even in the best of circumstances, nurturing a spirit of teamwork among co-workers is a difficult feat.

Conflict, poor communication, different attitudes and perspectives are just a few of the myriad issues that can cause a rift among team members. These difficulties increase in the world of the virtual workforce, where team members often do not even share the same content, let alone the same viewpoint.

Advances in telecommunication and information technologies have enabled MNCs to assign worldwide teams to even the most complex projects. Such work teams can deliver tremendous benefits, allowing businesses to leverage global expertise, tap into lower cost labour pools, localise products and work around the clock. In many cases, however, the opportunities have not been matched by an understanding of 'how to carry out interdependent work' under such conditions.

It is proved that people frequently do not understand the context and situation within which their remote team members work. Differences in the quality, accessibility and features of equipment, dissimilar measurement processes and standards, and differences in the distances people must travel to accomplish tasks, are a few of the factors that impact performance at the local level. There may be competing responsibilities, different pressures from local supervisors and co-workers and, when working across cultures, different holidays and customs. Lack of understanding of local situations and contexts is a barrier to effective teamwork. People often do not understand why their remote colleagues are reacting as they are because they do not understand their colleagues' problems. Managing conflict is one of the greatest challenges of leading a successful virtual team. Without the physical signs that serve as hints to internal tension between team members, supervisors can be caught unawares by a sudden slowing down of work, poor quality of tasks completed and absenteeism, that impacts deliverables from the virtual teams.

Supervisors of distributed teams need to make open-minded inquiries when early signals of tension appear across locations, assuming things are fine or assuming things will blow over might not be a good idea in the long run. Tensions escalate quickly in distributed situations because of the lack of opportunities for correction. Some conflict is a natural part of distributed work because of misunderstandings, differences across locations and other factors. So managers and leaders would need to resolve conflicts quickly and constructively.

Lack of adequate communication is one of the most critical elements that hampers team-building efforts. People can be hesitant to call or e-mail someone whom they have not met previously, particularly if it is someone of a different culture. They are not sure how the person will react to their approach or when it is a good time to call. People sometimes procrastinate and try to get the information they need in some other way. This generally has a negative impact. Work slows down or information is less than complete.

In order to manage performance effectively in virtual teams—managers/supervisors need to build a team identity and process, balance technical and social systems within the team and facilitate the development of long-distance relationships and trust among team members.

Some other steps the manager / supervisor need to undertake are :

- Identify the roles and concerns the virtual team leader faces

- Understand what virtual team members want from their team leader

- How to effectively unify the virtual team's culture and relationship

- Identify methods to build trust and overcome team-busting behaviours in virtual teams

- Understand virtual communication channels and cross-cultural interactions

- Setting performance goals—defining, organising, communicating and reinforcing

- Gaining insights into motivating and recognising virtual team performance.

Assessing Subsidiary Performance :

The discussion on performance management till now, centered around the expatriates. There is another but related dimension to performance management—assessing the performance of the subsidiary itself.

Assessing the effectiveness of a subsidiary is probably more important than assessing the performance of individual expatriates.

Difficulties in Assessment :

Assessment of the performance of a subsidiary is compounded by several constraints which include the following :

Balancing HQ and Host Unit Performance :

There is a need to balance the good of the whole organisation vs. one subsidiary's profitability / loss. The role that a host unit plays in the global strategy of the organisation cannot be viewed in isolation. If a subsidiary is not performing as planned, it does not automatically imply that its operations should be shut down. Market presence, competitor strategies and inability to effectively quantify the ROI of a host unit soon after its setup are some considerations that need to be factored while assessing a subsidiary's performance. Often, due to the decline in sales of the headquarters, there is a conscious reduction in the investment at the subsidiary level which could significantly impact the subunit's performance evaluation.

Attention to External Forces :

There is a need to be sensitive to the kinds of measures used to assess unit performance. The use of objective and quantifiable measures alone may not be fair. Adequate considerations to circumstantial factors that change suddenly, such as new tax laws, higher salaries, service terms and conditions, government regulations, import / export tariffs, political instability and utility strikes are some examples that make objective appraisal problematic and complicated.

Vagaries of the International Environment :

In addition to country-specific aspects, there are business / market trends/turbulences that impact subsidiary performance. For example, the moving out of call centre jobs form high labour cost countries like the USA and UK, impacts the performance of units operating in that country. It is a global trend to optimise costs and cannot be pinned down as a performance concern of the unit. Assessment of a subsidiary's performance therefore, needs to be weighed and assessed in tune with the long-term goals, enabling it to effectively respond to potential market contingencies as they unfold. An inflexible approach could result in the subsidiary pursuing strategies which are no longer fit for the new environment. Volatility and fluctuations in the market due to warlike situations / terrorism, could make goals and deadlines set by the distant HQ's strategic team unrealistic and impractical.

Therefore, it would be critical to involve the subsidiary's managers in strategic planning and to be flexible in modifying plans to provide for exigencies.

Significance of Time and Distance :

Lack of face to face interactions and high degree of physical distance compounds the challenges of assessing performance across geographies. Added to it is the dimension of time zone differences that are commonly faced. Teleconferences, video conferences and web-ex sessions are some sophisticated communication systems that can link more than two locations simultaneously. While cost is a consideration, the lack of face to face communication influences the strength of the relationships that are established. Additionally, these contact sessions are limited in time and duration and the depth of communication and, therefore, impact performance.

Variable Level of Maturity Growth in a foreign country is generally slower and more difficult to achieve than in the home country.

There is more time needed to show any results and the effort required is often a lot more and cannot be compared against any other benchmark, internally or externally. Sensitivity towards variations in customs and work practices in the parent vs the host country needs to be recognized and appreciated.

The focus on performance management of a subsidiary should be on how far strategic, corporate and functional goals have been met during the early years of the establishment of the subsidiary. Table 9.5outlines the goals.PMS is strategically and increasingly being used to attract, manage and retain an effective and efficient workforce. It is not just about money any more, and that MNC's view performance appraisal in terms of broader strategic rewards, which keep highly-skilled employees engaged and focused on meeting strategic objectives and delivering results. Such rewards not only include pay and benefits, but also career development and learning opportunities, as well as issues related to the work environment, including organizational climate and work / life balance. The PMS is viewed as a strategic HR activity closely linked to ensuring that the organisation is tuned to achieving the business objective.

9.11 SUMMARY :

PMS indeed becomes effective when the following considerations are embedded into the process :

1. Clear individual performance criteria and standards that are related to the job / role and that are communicated clearly at the start of the appraisal period.

2. Adequate training and communication for all parties.

3. Continuous measurement and feedback.

4. Developmental activities occurring through the appraisal period in order to remedy poor performance and to build on good performance.

5. Performance appraisal based on job-related result and behaviors, rather than personal characteristics.

6. Attribution of good or poor performance to correct causes, with clear and direct two-way communication regarding good and poor aspects of performance.

7. Formulation of plans to correct poor performance and to build on good performance in the future.

9.12 KEY WORDS :

Horizontal collectivism :

Horizontal collectivism in a national context refers to a tendency of employees to group together within levels; e.g., those with similar designations, roles and responsibilities. Individuals are part of a larger group.

Vertical collectivism :

Vertical collectivism refers to employees forming groups at a departmental level, with little or no attention to level / hierarchy between team members. Tasks are largely owned as a team and the team works together to help each other and achieve the deliverables. Power distance in such societies is high.

9.13 SELF ASSESSMENT QUESTIONS :

1. Briefly discuss the Issues in managing performance in the global context.

2. Examine and identify the linkage between performance appraisal and salary increase.

3. Briefly know the virtual assignment in managing the performance.

9.14 SUGGESTED READINGS :

1. International Human Resource Management (2008),PL Rao Excel Books.

2. International Human Resource Management (2013) Miguel Martine Lucio, Sage Publications.

3. Managing Global Work force (2013), Charles M.Vance, Eastern Economy Edition

4. International Human Resource Management (2018) Annamalo& Murugan, Discover Publishing House**.**

Dr. M. Rama Satyanarayana

LESSON – 10

TRAINING AND DEVELOPMENT IN INTERNATIONAL CONTEXT

Learning objectives :

➢ To discuss the significance of pre-departure training.

➢ To identify the need of developing staff through international assignment.

➢ To explain the techniques employed to develop the staff.

Structure of the lesson :

10.1 INTRODUCTION :

Training refers to the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies. It forms the core of apprenticeships and provides the back bone of content at institutes technology (also known as technical colleges or polytechnics). In addition to the basic training required for a trade, occupation or profession, observers of the labour-market recognize the need to continue training beyond initial qualifications to maintain, upgrade and update skills throughout working life. People within many professions and occupations may refer to this sort of training as professional development.

10.2 ROLE OF EXPATRIATE TRAINING :

Today, more and more companies are spending substantial amounts of money on training and development of their employees to attain long-term organisational goals. Training programmes are designed and delivered after extensive research and preparation so as to deliver acceptable returns on investment, and to secure sustainable competitive advantage. The management's philosophy of a company, whether ethnocentric, polycentric or regiocentric influences the type of training.

Example :

1. Ethnocentric companies will provide all training at the headquarters and these will be designed and delivered by home national's polycentric.

2. Polycentric companies will rely on local managers to assume responsibilities for seeing that the training function is carried out wherever appropriate.

3. Geocentric companies organise training courses in different parts of the world, where a particular function is being best carried out.

Training has specific goals of improving one's capability, capacity and performance. Training aims to improve current work skills and behaviour, where as development aims to increase abilities in relation to some future position or job – usually managerial. Training is the process of altering employee behaviour, attitudes and knowledge in a way that increases the probability of individual and organisational goal attainment. It aims to improve in relation to some future position or job, usually managerial. When expatriates are unfamiliar with the customs, cultures and work habits of the local people, they often make critical mistakes which can be avoided by providing them with proper training.

The role of expatriate training can be summarised as :

- The focus of training is on creating cultural awareness.

- Effective cultural training assists individuals to adjust more rapidly to the new culture.

Previously MNCs placed less priority on providing pre-departure training for the spouse and family. But as it has been established that they equally need the training and it is being provided to them.

10.3 PRE-DEPARTURE TRAINING PROGRAMMES :

Most expatriates are selected from within the multinational's existing operations, while some expatriates may be hired externally. Once an employee has been selected for an expatriate position, pre-departure training is considered to be the next critical step. This is an important attempt to ensure some cultural familiarity, especially if the expatriate's host country is considered culturally tough. Effective cultural training enables individuals to adjust more rapidly to the new culture.

A large number of U.S. multinationals have been reluctant to provide even a basic level of predeparture training. U.S. multinationals tended to use training programmes for expatriates less frequently than European and Japanese firms According to researchers (Harrison, 1994; Harris and Moran, 1991) training for expatriate managers must include following phases :

Self-Awareness :

The self-awareness phase should be designed to provide the trainees within sight into their receptiveness and propensity for successful cross-cultural assignments. There are several psychological instruments available for managers and their family members, including the Cross-Cultural Adaptability Inventory (Kelley & Meyers, 1992) and the Intercultural Sensitivity Inventory (Bhawuk & Brislin, 1992). After completing several psychological instruments, it may become clear to the manager (or to his/her supervisor) that overseas assignment may not be appropriate. Jordan and Cartwright (1998) believe successful expatriate managers have the following attributes :

1. Emotional stability

2. Self-confidence Intellectual capacity

3. Openness to new experiences

4. Relational ability

5. Linguistic skill

6. Cultural sensitivity

7. Ability to handle stress

General Awareness of Cultural Differences :

The general awareness of cultural differences phase of training is now supported by an impressive body of literature. Kluckhohn and Strodtbeck(1961), Hofstede (1980, 1993), and Trompenaars (1998) provide insight into how cultures differ on various dimensions. Kluckhohn and Strodtbeck (1961) describe six different cultural dimensions :

1. How people view humanity (good, evil, mixed)

2. How people see nature (domination, harmony, subjugation)

3. How people approach interpersonal relationships (individualistic, group, hierarchical)

4. How people view activity and achievement (being, controlling, doing)

5. How people view time (past, present, future)

6. How people view space (private, public, mixed)

Bennett (1986) believes by educating individuals to recognise their own values, they can better identify contrasts with other cultures and then apply these insights gained to improving cross cultural interactions. Harrison (1994) adds, "To appreciate the differences in other cultures, trainees must understand their own culture."

Specific Knowledge Acquisition :

The specific knowledge acquisition phase includes area studies, language studies, and host attitude awareness. Area studies, covering history, political system, economy, demographics, and climate are assumed to increase empathy, which will modify behaviour in cross-cultural interactions (Tung, 1981). Researchers (Copeland & Griggs, 1985; Harris & Moran, 1991) have found knowledge of the host country's language to be essential. Interestingly, an individual's level of confidence and willingness to use the host language is a greater influence on success than his or her actual level of fluency (Mendenhall & Oddou, 1985).

Specific Skills Training :

The specific skills training phase emphasises the application and practice of the skills necessary to succeed in the foreign culture. In this phase, "trainees analyse the problem situation, diagnose the underlying cultural issues, and respond accordingly" (Harrison,1994). Case studies, simulations, and behaviour modeling allow for the application and practice of previously acquired knowledge. An effective skills training method is the simulated cocktail party (Earley, 1987). The interactions in this simulation require the use of greetings and introductions, etiquette, and appropriate topics for conversation. Mendenhall and Oddou (1998) believe this type of simulation forces the trainees to deal with emotions resulting from cross cultural misunderstandings. Harrison (1992) describes the use of behaviour modeling as an effective cross-cultural training tool. Managers watch live or videotaped models demonstrating effective behaviours; then the managers rehearse the demonstrated behaviours. Trainers should be available to provide feedback.

The components of cultural awareness programmes vary according to country of assignment, duration, purpose of the transfer, and the provider of such programmes. Various cultural awareness programmes has been designed to provide expatriate with the effective training before he departs for foreign assignments.

A well-designed cultural awareness training programme will seek to foster an appreciation of the host-country's culture so that expatriates can behave accordingly or develop appropriate coping patterns. Without an understanding of the host-country culture in such a situation, the expatriate is likely to face many difficulties during the international assignment.

10.4 AREA STUDIES PROGRAMMES :

The degree of interaction required in the host culture and the similarity between the individual's native culture and the new culture determines the variations in the expatriate training along with the duration of the training.

1. If the expected interaction between the individual and members of the host culture is low and the degree of dissimilarity between the home and host cultures is also low, then the training should focus on task- and job-related issues rather than culture-related issues. The level of rigour necessary for effective training should be relatively low. The duration of training could be one to two weeks including focus on area briefing and sensitivity training.

2. If there is going to be high level of expected interaction with host nationals and large dissimilarities exist between the cultures, then training should focus on cross-cultural skill development as well as on the new task. The level of rigour should be moderate to high. The duration of training can extend from two weeks to two months including language training, use of training assimilators and field experience in addition to area briefing and sensitivity training.

Fig. 10.1 : Cultural Awareness Training and Assignment Performance
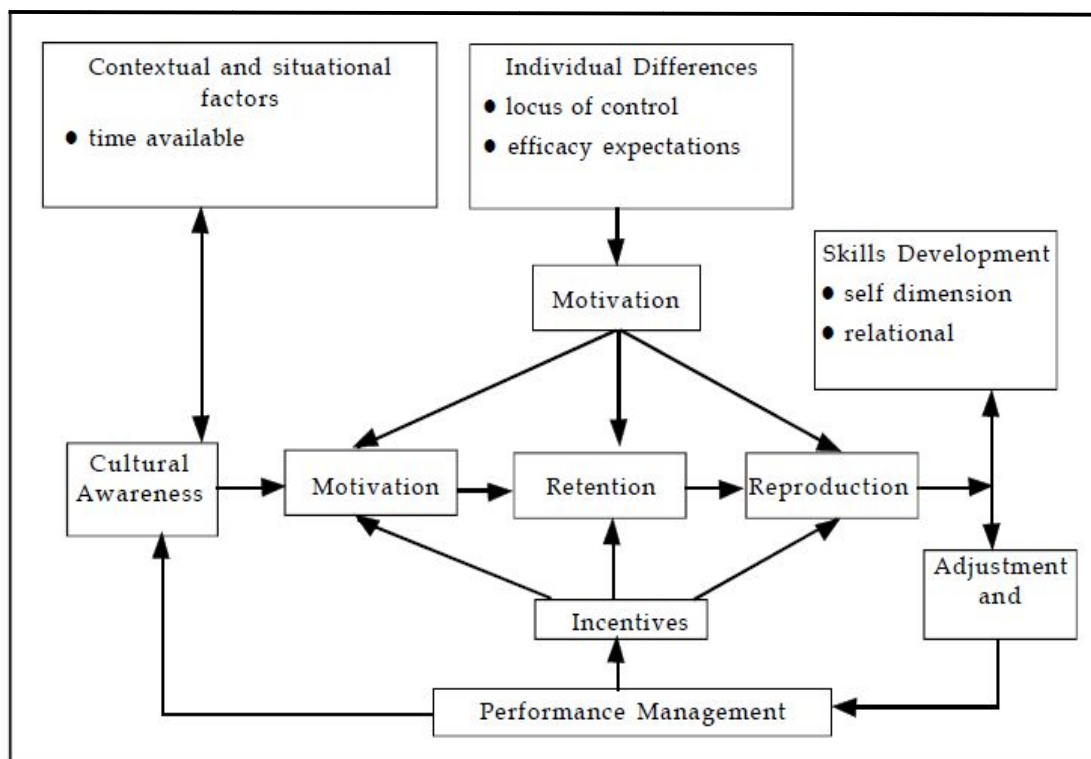
Source: Dowling *et al.,* International HRM (2001) p. 160

The three aspects of social learning theory – attention, retention, and reproduction also influence the individual differences in expectations and motivation and incentives to apply learned behaviours in the foreign location. It recognises that effective training is only

the first step and that the expatriate's willingness and ability to act on that training in the new environment is crucial to effective performance. It stresses the importance of attention paid by the potential expatriate to the behaviours and probable outcomes of a cultural awareness training programme, the individual's ability and willingness to retain learned behaviours, and their reproduction as appropriate in the host location.

10.5 PRELIMINARY VISITS :

The technique of sending the employee on a preliminary trip to the host country helps in orienting international employees to international assignments. A well-planned overseas trip for the candidate provides a preview that allows them to assess their suitability for an interest in the assignment. Such a trip serves to introduce expatriate candidates to the business context in the host location and helps encourage more informed pre-departure preparation.

Most firms that utilise preliminary visits weigh their cost against premature recall and under performance risks. A potential problem exists in that the aim of the preliminary visit is often twofold–part selection decision and part pre-departure training.

Combined with cultural awareness training, the preliminary visit is a useful component of a pre-departure programme. Exposure to the expatriate community, if one exists in the proposed host location, can be a positive outcome of the preliminary visit.

10.6 LANGUAGE TRAINING :

Language training is a desirable component of a pre-departure programme. There are three inter-related aspects related to language ability :

1. Role of English as the Language of World Business :

English is the accepted language of world business, though the form of English is more "international English" than that spoken by native speakers of English. Multinationals from English-speaking countries such as the United States, the United Kingdom, and Australia often use this fact as a reason for not considering language ability in the selection process, and for not stressing language training as part of pre-departure programmes.

2. Host-country Language Skills and Adjustment :

The ability to speak a foreign language can improve the expatriate's effectiveness and negotiating ability. It can improve manager's access to information regarding the host-country's economy, government, and market. The degree of fluency required depends on the level and nature of the position that the expatriate holds in the foreign operation, the amount of interaction with external stakeholders such as government officials, clients, trade officials, as well as with host country nationals. Language skills are important for task performance and cultural adjustment.

3. Knowledge of the Corporate Language :

For multinationals from non-English-speaking countries, the standardisation of information and reporting systems tends to be handled in the language of the parent's country

of origin until geographical dispersal makes that problematical. The multinational adopts a common company language to facilitate reporting standardisation and other control mechanisms, particularly normative control.

Language skills become an important aspect. PCNs can find themselves performing as communication conduits between subsidiary and headquarters, due to their ability to speak the corporate language. It also can give added power to their position in the subsidiary as PCNs often have access to information that those not fluent in the corporate language are denied.

10.7 PRACTICAL ASSISTANCE :

Another component of a pre-departure training programme is providing information that assists in relocation. Practical assistance makes an important contribution toward the adaptation of the expatriate to their new environment. Being left to fend for themselves may result in a negative response toward the host-country's culture, and contribute to a perceived violation of the psychological contract.

MNCs take advantage of relocation specialists to provide the practical assistance. The local orientation and language programmes are normally organised by the personnel staff in the host country but the corporate HRM staff must liaise with the sending line manager as well as the HR department in the foreign location to ensure that practical assistance is provided.

10.8 JOB-RELATED FACTORS :

There are differences in the way people approach tasks and problems and that this can have an impact on the learning process. The ability to transfer knowledge and skills in a culturally sensitive manner should be an integral part of pre-departure training programmes. An international assignment can be a promotion to a managerial role for which the preparation is effectively the international assignment.

10.9 CULTURAL ASSIMILATORS :

It is a programmed learning technique that is designed to expose members of one culture to some of the basic concepts, attitudes, role perceptions, customs and values of another culture. These assimilators are developed for each pair of cultures; one culture where the candidate is currently working and the other culture is where he is proposed to be posted.

These assimilators require the trainee to read a short episode of a cultural encounter and choose an interpretation of what has happened and why. If the trainee's choice is correct, he or she goes to the next episode. If the response is incorrect, the trainee is asked to read the episode again and choose another response.

10.10 MENDENHALL AND ODDOU'S MODEL :

Mendenhall and Oddou (1986) enrich Tung's contingency framework by presenting one which groups the cross cultural training (CCT) methods into high, medium and low levels of rigor and suggests the desired duration of CCT.

According to Mendenhall and Oddou's (1986) paradigm, where the duration of sojourn in the host culture is long (1-3 years), the degree of interaction and integration with the foreign culture is deemed to be high. This necessitates a high level of training rigor. The corresponding training approach, the "impression approach", employs methods like assessment centres, field experiences, simulations, sensitivity training and extensive language training. Information giving training methods like area and cultural briefings, affective training like role-playing are also included to provide the comprehensiveness the nature of the overseas assignment warrants.

10.11 BLACK AND MENDENHALL'S MODEL FOR CCT METHODS SELECTION :

In an attempt to improve on Tung's (1981) and Mendenhall and Oddou's (1986) frame works, Black and Mendenhall (1989) proposes a CCT methods selection framework based on the social learning theory (SLT) (Bandura, 1977).

10.12 THE BEITLER AND FRADY MODEL :

Beitler and Frady's (2002) model of Expatriate Manager Assessment and development builds upon aspects of Harrison's (1994) and Jordan and Cartwright's (1998) work. Beitler and Frady's(2002) model includes the following steps:

Assessment :

Any management development program should begin with assessment. The assessment phase should be especially comprehensive for expatriates because of the unique KSAs required for foreign assignment. The typical management assessment instruments are helpful, but they should be supplemented with instruments such as the Cross-Cultural Adaptability Instrument (CCAI) and the Self-Directed Learning Readiness Scale (SDLRS).

Individualised Learning Agreements :

The learning agreement, as detailed in Beitler (2000, 1999),should include the following :

(a) What will be learned?

(b) How will it be learned?

(c) How will the learning be documented?

(d) How will the learning be evaluated?

Pre-Departure Training/Orientation :

At a minimum, this should include general awareness of the culture and basic language skills. It is important to include spouses and dependents, as well as the expatriate managers, in this phase.

E-Support during Foreign Assignment :

This step is critical in the Beitler and Frady (2002) model. Training and development for the expatriate manager only begins in the pre-departure phase. Ongoing support is

necessary for success. The expatriate manager will need to acquire additional KSAs after arriving in the host country. In the pre-departure phase, managers can acquire knowledge (K) through classroom learning, skills (S) through daily mentoring, and proper attitudes (A) through face-to-face counselling sessions. During foreign assignment, classroom learning must become E-learning, daily mentoring must become E-mentoring, and face-to-face counselling must become E-counselling. The technology is now available to support E-learning,E-mentoring, and E-counselling (see Beitler & Frady, 2002). Today's global organisations must utilise that technology.

Periodic Re-assessment :

This is very important for the success of the foreign assignment. The expatriate manager should receive as much feedback as possible. Guidance from a host country supervisor or sponsor would be ideal but is not always possible. At a minimum, peers and subordinates should be surveyed for input.

Learning Agreement Revisions :

New learning agreements should immediately follow the Periodic performance reviews. Plans for enhancing strengths and ameliorating weaknesses should be clearly written.

E-counselling is an investment that will yield substantial returns for the organisation. This support should be well planned and monitored for continuous improvement. Who's Involved?

A comprehensive expatriate support system should include all four of the following :

1. Manager

2. Spouse

3. Dependents

4. Host-country sponsor

E-learning, E-mentoring, and E-counselling can be provided for all four stakeholders mentioned. Expatriate training and support is critically important to the success of international organizations

10.13 INTERNATIONAL TRAINING OF HCNS :

HCNs can be transferred into the parent country, into either its head quarters or home-subsidiary operations. There are various motives for HCN staff transfers :

1. It facilities specific firm-based training.

Example :

(a) The Pepsi-Cola International Management Institute is an umbrella system for the delivery of training programmes such as sales force management or

production techniques for the manufacturing or Pepsi brands.

(b) Fiat, the Italian automobile manufacturer, uses staff transfers as part of its training programme, with HCN recruits spending time at corporate headquarters.

2. While technical and managerial training may be the primary goal, there is often a secondary, yet equally important, objective of building a sense of corporate identity.

3. Particular skills may be required in the subsidiary and the most cost effective way is to bring certain HCN staff into the parent operations.

Example : When Ford Australia began manufacturing the Capri model – a sports car aimed at the U.S. market – Australian production and engineering employees spent time in Ford's U.S. factories to quickly gain the necessary knowledge required to meet U.S. safety regulations.

4. The presence of HCNs may assist in broadening the outlook of parent-company employees as HCNs have particular knowledge and skills that can be transferred into parent operations. Cultural adjustment is inherent in international staff transfers, regardless of the direction of the transfer that is, whether it is the PCN moving to a subsidiary, a HCN coming into parent operations, or transferring to another subsidiary. In order to design and implement HCN pre-departure training, local management, particularly those in the HR department, need to be conscious of the demands of an international assignment.

10.14 DEVELOPING STAFF FOR INTERNATIONAL ASSIGNMENTS :

Foreign assignments are an important mechanism for developing international expertise – for both management and organisational development. Many multinationals are conscious that they need to provide international experience to several levels of managers and not just to a small cadre of PCNs.

Techniques employed to develop the staff through international assignments are :

1. One technique used to develop larger pools of employees with international experience is through short-term development assignment ranging from a few months to several years.

Example : The Swedish-Swiss conglomerate ABB, have carried on the practice of developing small cadres of international employees rather than internationalising everyone.

2. International job rotation is also a well-established technique for developing multinational teams and international operators. It is supported by PCN, TCN, and HCN attendance at common training and development programmes held either in the parent country, or regional centres, or both.

3. Action learning approach : It is the approach which is applicable to both individual and organisational learning and is widely adopted in British and international companies. This approach is based on the assumption that learning is bound up with the process of management and everyone in the organisation should be engaged in learning. This pre - supposes the availability of information in the organisation sufficient to enable learning to take place throughout the organisation.

Revans (1965) suggests that there are four forces bearing on management decision-making :

(a) The need for economy of time and management effort;

(b) The analytical approach available to the manager, whilst not forgetting intuition which is the first weapon of management;

(c) The ability to understand and contain variability and risk by the use of statistical methods;

(d) A greater understanding of human beings as a determinant of success in the enterprises.

4. Experiential learning approach : Kolb (1976) developed the concept of experiential learning as a process or cycle comprising four stages. It is :

(a) Concrete experiences; followed by;

(b) Observation and reflection; leading to;

(c) Formation of abstract concepts and generalisations; leading to;

(d) Testing of the implications of concepts for future action which then leads to new concrete experiences.

He states this as the way learning happens as it is governed largely by the pursuit of goals that are appropriate to our own needs.

10.15 TRANSFERABILITY ACROSS CULTURES :

In the cross-cultural context Hughes-Weiner (1986) qualifies the learning process described by Kolb as follows :

1. Concrete experience : People from different cultures are likely to have different background and different experiences.

2. Reflective observation : As a result of different behaviour patterns, socialisation and institutional and work experiences, individuals from different cultures may make different assumptions about what they see and understand through their experiences.

3. Abstract conceptualizing : Because people from different cultures have different cognitive frameworks, this may lead them to focus on irrelevant information or misinterpretations in a particular situation, thus drawing wrong conclusions and theories in a different cultural situation from their own.

4. Active experimentation : Behaviour differences between cultures may lead to misinterpretations and misinterpretations of the meanings of such behaviour outside their own cultures, leading to confusion and frustration.

In order to overcome the problems of transposing the experiential model on to other cultures, Jackson (1995) proposes four learning modalities as follows :

a. Receptivity : Learners are predominantly receptive to practical stimuli or theoretical stimuli for learning depending on their cultural backgrounds and their experiences in national educational systems.

b.   Perception : Learners are more intuitive about sorting and judging information, or are rational in a step-by-step approach in judging the quality of information that is the basis for making decisions.

c.   Cognitive : Learners are more subjective in the way they make decisions and solve problems based on personal judgment, or base their decision-making more on logic and scientific approaches.

d.   Control : Learners prefer to rely on their own initiative or on the direction of an instructor

10.16 SUMMARY :

Training refers to the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies.

Today, more and more companies are spending substantial amounts of money on training and development of their employees to attain long-term organisational goals.

MNCs take great pains to select the right persons and provide them with appropriate training before their departure as well as on arrival in a particular country.

Effective cultural training enables individuals to adjust more rapidly to the new culture.

Expatriate manger has to work in a different cultural if he is handling the international assignment.

Cross-cultural requirements and training has to be provided to the expatriates.

A better understanding of the cultural diversity is needed to be understood by expatriate.

Expatriate managers can match their attitude, managerial style with the host country culture, more effective they are in international assignments.

Proper training has to be provided so as to reduce the cultural dissonance feeling among the expatriates.

Foreign assignments are an important mechanism for developing international expertise–for both management and organisational development.

10.17 KEY WORDS :

Analytical Style Manager :

He is systematic and logical and makes decision rationally.

Cultural Assimilators :

It is a programmed learning technique that is designed to expose members of one culture to some of the basic concepts, attitudes, role perceptions, customs and values of another culture.

Development :

It is the framework for helping employees develops their personal and organisational skills, knowledge, and abilities.

Expatriate :

An international manager who got a foreign posting, leaving his homeland to work and live in other country to handle an international assignment.

Factual Style Manager : .

He looks for the available information for making decision.

Preliminary Visits :

The technique of sending the employee on a preliminary trip to the host country helps in orienting international employees to international assignments.

Training :

It is the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies.

10.18 SELF ASSESSMENT QUESTIONS :

1. Critically analyse the need of training for the expatriates, whether PCN or TCN.

2. You are a corporate HR manager. Examine the factors to be taken into account for an effective pre-departure training programme.

3. Analyse the ways in which an organisation can impart the cross-cultural training to its employees who would be handling the international assignments.

4. Critically analyse the motives of the HR manager for HCN staff transfers to either headquarters or home subsidiary operations.

5. Being the head of the HR department, you are given the responsibility to develop the international staff and multinational teams for your organisation. Devise a detailed plan for the same.

6. Taking the example of Mc Donald's, analyse the training strategies they might have developed to handle their international business in India.

7. "Expatriate employee must adapt to and not feel isolated from the host country." Did you agree to the above statement? Give examples to justify the same.

8. "Training and development of employees is considered to be the essence for the international assignments." Justify this statement.

10.19 SUGGESTED READINGS :

1. International Human Resource Management (2008),PL Rao Excel Books.

2. International Human Resource Management (2013) Miguel Martine Lucio, Sage Publications.

3. Managing Global Work force (2013), Charles M.Vance, Eastern Economy Edition .

4. International Human Resource Management (2018) Annamalo& Murugan, Discover Publishing House.

Dr . Prasad Chundi

LESSON – 11

CAREER DEVELOPMENT IN MNC

Learning objectives :

➢   To discuss the Recruitment Philosophy

➢   To identify the Overseas Career Background

➢   To know the Knowledge transfer in MNC

Structure of the lesson :

11.1   Introduction

11.2   Recruitment Philosophy

11.3   Selection Criteria

11.4   Selection Criteria and Techniques

11.5   Ideal Background for an Overseas Career Background

11.6   Repatriation

        11.6.1   Repatriation Process

11.7   Knowledge transfer in MNC

11.8   Summary

11.9   Key words

11.10   Self Assessment Questions

11.11   Suggested Readings

11.1 INTRODUCTION :

Today's business environment is constantly changing, and the ability to adapt to this changing environment is critical to the future success of large companies. As companies adapt, they will have to expand into international markets. As firms move from domestic to international markets, management philosophy must change to better suit the cultural diversity of the personnel of a multinational corporation. The way management handles the move to a foreign market can increase the probability of success in the foreign arena. With proper recruitment and selection criteria, the appropriate staff can be chosen to help run foreign subsidiaries.

Competitive advantage in international business has changed the world's manufacturing environment considerably. While there are many reasons for this change, technical advances seem to be the most significant. There is scant literature to guide an examination of the similarities and differences between international and domestic HRM.

Given that the rapid growth of international business enterprises is a relatively recent event, this lack of research material on either international HRM or the differences between international and domestic HRM is not surprising. As Leap and Oliva point out, an examination of the history of HRM shows that changes in organizational practice typically occur well in advance of academic interest in these issues.

An international human resource department must engage in a number of activities that differentiate domestic and international HRM. One management guru states that a domestic human resource department at corporate headquarters or field locations typically divides its time among eight activities. Employment and resources planning, wage and salary administration, employee benefits, training and management development, labor relations, safety, personnel systems and policy, and equal employment opportunities. At the corporate headquarters level, the two major activities that differentiate domestic and international HRM are taxation relocation and orientation.

A firm generally begins with a domestic operation, which concentrates on the home market. As the home market becomes saturated, usually due to competition, a domestic firm begins to rely more heavily on exports. By exporting products to foreign markets, a company can make up lost earnings in the home market. In addition, the need for cheap labor, additional resources, and new technology can lead to expansion into a new market in the international arena.

As a firm begins to export and eventually branch out, establishing production facilities and offices abroad, it must also find ways to better service its new market. A MNC must recognize the new environment in which it is operating and make changes to fit the different needs of the individuals in this market. A firm must understand many different criteria in order to be successful in a foreign market. Managers of MNCs must familiarize themselves with the differences in culture, social beliefs, language, philosophy, religious beliefs, work habits, and overall customs of the market in which they will function. Adapting to these differences is a key element in the ongoing success of a company competing in the international marketplace. As a firm grows, understanding these differences becomes essential. In other words, cultural and political differences do not necessarily restrict business opportunities.

After a corporation has dealt with the external environment, it must then begin to look at the internal environment. One important area is developing a corporate culture and establishing HRM policies.

11.2 RECRUITMENT PHILOSOPHY :

An objective selection process should be used when hiring from a global pool of applicants, which means that the best-qualified applicant should be chosen for each job. However, research indicates that a major influence on hiring decisions is the attitude of top executives toward host country nationals. There are four approaches to recruitment that are used by MNCs.

The first approach is ethnocentrism. Management staffs all key positions, both at home and abroad, with home country executives. This approach is found in firms that are highly centralized and that rely on low-cost production of products.

The second approach is polycentrism. The attitude here is that host country management should be done by host country nationals. It is based on the belief that home country nationals are better able to understand their own markets.

The third approach is region-centrism. This means that global markets should be handled regionally. For example, the main headquarters for all European markets might be located in France, or headquarters for all markets in North and South American would be in the United States. This style is used when similar products are sold all over the world and only the marketing is tailored to meet different cultural needs.

The fourth approach is geo-centrism. According to this approach, qualified people can come from any background or culture. Resource allocation, staffing, manufacturing, and marketing are done on a global basis.

11.3 SELECTION CRITERIA :

Selecting a manager to operate a corporation in a foreign market is a major decision. To the people of a host country, the manager represents both the MNC and its home country. The impression a manager leaves lasts a long time, long after the manager returns home. Therefore, choosing the right manager to go abroad could mean the difference between success and failure.

What criteria should be used when selecting a manager for a foreign assignment? What characteristics should a manager possess? Opinions differ as to what makes a good manager, but the following seven criteria are among the most frequently mentioned.

Technical and Managerial Skills :

These skills are usually based on past performance at the managerial level. The technical, administrative, and managerial skills that make a manager successful at home are applicable in a foreign assignment.

Motives and Desires :

Motivation for wanting a job is an important factor. The best candidates have a genuine interest in the host country, rather than just a financial incentive. A good candidate should know something about the host country, preferably through travel or by learning the language.

Social Skills :

This may be the most important attribute. A manager must be able to interact with and understand people in the host country. He or she must be able to form relationships and understand the norms of the society in order to effectively deal with the people, whether on a business or social level. Social activities, such as attending a sporting event or eating out, often provide an opportunity for interaction.

Diplomatic Skills :

A manager's ability to interact with business associates, government officials, and political leaders.

Maturity and Stability :

The ability of a manager to deal with a situation logically.

Family Factors :

The ability of a manager's family to adapt to a new environment is a major factor in the success or failure of a MNC in a foreign country.

Other Attributes :

Less specific criteria that may vary from culture to culture. For example, age is a sign of authority in some countries. Women may find it difficult to deal with host country nationals, subordinates, colleagues, or clients in some countries due to societal restrictions.

Managers should be fully aware of differences in culture and ethics. They should be fluent in their host country's language and aware of its traditional business practices. The process of selecting host country and third country national managers is time consuming. Technical expertise, adaptability, flexibility, communication and decision-making skills are key ingredients in the process.

There are many reasons for hiring qualified international managers. Host country personnel may not have received the professional training that would allow them to assume managerial roles. A combination of poor educational opportunities and depressed economic conditions in a host country may limit the number of talented and qualified people available for employment.

Foreign investors and managers may find that work setting and employee attitudes in foreign countries are, in some instance, more conductive to business. Obedient employees are less likely to confront employers or managers, labour dispute, which are common in western countries. Managers should understand that emphasis on technical skills, which is considered very important in measuring the success of organisation in the west, might not be quite as appealing in foreign countries.

Foreign managers and investors should understand that workers in other countries like to know that they are approached by the organisation as demonstrated through its HRM practices. These practices include selection and training geared toward overall concern for employees and collective negotiation in the workplace.

11.4 SELECTION CRITERIA AND TECHNIQUES :

An executive who serves abroad not only represents his company but is also viewed as an ambassador without portfolio'. He must have adaptive capabilities in addition to managerial and technical competence. Open mindedness, tolerance and respect for other viewpoints and traditions, and knowledge of the history and culture of the host country are some of the prerequisites of success in overseas assignments. A sense of politics,

organizational abilities and overall abilities to achieve company's goals through acceptance and cooperation are other attributes required. The attitude of executive's spouses is also a critical factor. A survey of large number of American executives overseas by Gonzalez and Negandhi has shown that adaptability of spouse and children is considered a major source of success. The attributes that contribute to ideal background for overseas manager are listed below.

11.5 IDEAL BACKGROUND FOR AN OVERSEAS CAREER BACK GROUND :

Wife and family adaptability, leadership ability, knowledge of job, higher education, respect for laws and people of host country, previous overseas experience, desire to serve overseas, knowledge of the language of host country, managerial understanding and credentials are important for career overseas. For assessing the credibility, organizations now a days are practicing "adaptability Screening' which account factors such as, measuring suitability for life abroad and its of the stresses that life in foreign country will experience.

Managers who had shown adaptability to transfers and who are not too tied to their own culture, traditions are likely to adapt abroad. The spouse, in most cases the wife, as it is she, who has to bear the brunt of the transfer. For the husband it is largely in the nature of advancement of career and opportunity to grow. The wife is required to develop a new set of social relations, so that she may not feel lonely in new environment. While she may need more time and attention of husband who may be her only companion for quite some time the husband may find little time because of the demands of new job at a new place in a new environment. But this may sometimes lead to marital stress, which may affect performance at work May therefore, not only take into account the adaptiveness but also values strength of the marital ties. Selection decision should be based on the expatriate adjustment needed in the workplace. The issues that will be important here in this case are interaction with host nationals, technical competence, culture novelty, family situation, and communication all considered in this decision-making framework. This also gives a consideration to the fact that verses jobs differ, and that some jobs need much more interaction with host nationals than others. Therefore the criteria need not to be same for all overseas assignments. The framework needed does not specify exactly how candidates can be measured and evaluated on the proposed criteria's, which are considered important in the selection process.

The MNE, which follow a rigorous procedure of selection to assess necessary competences, have less failure rate. The cost of screening be4fore placement is always much lower than the cost of failure in the new environment.

11.6 REPATRIATION :

The central tenet of an individual's re-entry challenge is psychological. The word "re-entry" implies going back, returning to something that is known from prior experience. But to what? Perhaps to the broad fabric of one's home country, the actual home or neighbourhood one lived in before the international assignment, or the lives of friends and family, or a school system

There is a tendency for repatriates to expect several things :

1.   Although people and places change, relationships that were once vital will continue to be so;

2.   Family and friends will be as eager and excited to hear about their adventures as they are to speak about them;

3.   Activities and / or job responsibilities that inspired them before they left will continue to do so;

4.   They will feel relaxed, at ease, and "at home" because they are once again in a familiar cultural and physical environment; and

5.   Their broader perspective on life, abilities to deal effectively with diversity, and their understanding of the global nature of the human condition will be acknowledged and valued.

The actual experience of return proves, however, that to varying degrees all of the above assumptions are false. Returnees often are surprised to experience a re-entry cycle similar in form, but often more intense, to the one they encountered during their experience abroad, this is termed as Re-entry Shock. Intercultural practitioners know that professional integration is a key during repatriation.

Issues of career development and job effectiveness have been in the limelight of re-entry training. Career advancement often is cited as a major reason for accepting an international assignment. It follows that expatriate returnees wish to be kept abreast of changes in the home office. They want to stay closely in communication with the major players while they are away, and they are concerned about the timing of and their job responsibilities on return.

The perception of having job responsibilities that are a "good fit" with capabilities developed overseas has an important influence on the employee. This may be rated as more important than a salary increase in contributing to repatriates' satisfaction with the new domestic assignment. Finding such a good fit is complicated by several factors, one of which is the expectation of colleagues who have not been abroad.

11.6.1 Repatriation Process :

On completion of the foreign assignment, the multinational brings the expatriate back to the home country. But all international assignments do not end with a transfer home–rather; the expatriate is re-assigned to another international post. Expatriation and repatriation are interrelated.

**Fig. 11.1 : Expatriation Includes Repatriation**
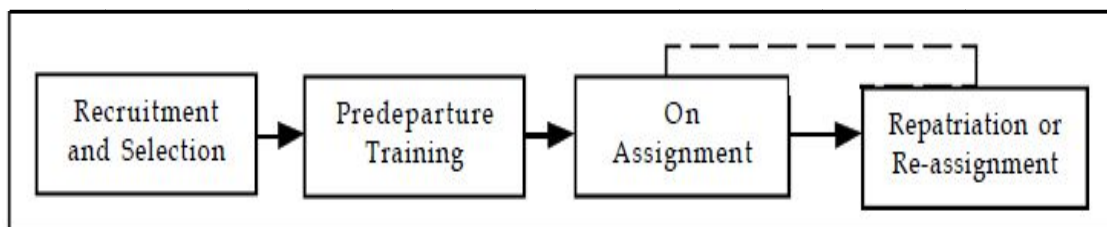
Re-entry into the home country presents new challenges as the repatriate (returning person) copes with re-entry shock, or reverse culture shock. While people frequently expect life in a new country to be different, they may be less prepaid for homecoming to present problems of adjustment. As a consequence, it can be a traumatic experience for some even more than what was encountered in the foreign location. From the multinational's perspective, repatriation is frequently considered as the final stage in the expatriation process but the multinational's ability to attract future expatriates is affected by the manner in which it handles repatriation.

It is possible to divide repatriation into four related phases :

1. Preparation involves developing plans for the future and gathering information about the new position. The firm may provide a checklist of items to be considered before the return home (e.g., closure of bank accounts and settings bills) or a thorough preparation of employee and family for the transfer home.

2. Physical relocation refers to removing personal effects, breaking ties with colleagues and friends, and travelling to the next posting, usually the home country. Most multinationals use removal firms or relocation consultants to handle the physical relocation, both for the movement out and the return home of the employee and family, and this may be formalized in their HR policies. Comprehensive and personalised relocations assistance reduces the amount of uncertainty, stress, and disruption experienced by the repatriate and family.

3. Transition means settling into temporary accommodation where necessary, making arrangements for housing and schooling, and carrying out other administrative tasks (e.g., renewing driver's license, applying for medical insurance, opening bank account).

4. Readjustment involves coping with reverse culture shock and career demands. This phase seems to be the least understood and most poorly handled.

Fig. 11.2 : Repatriation Process
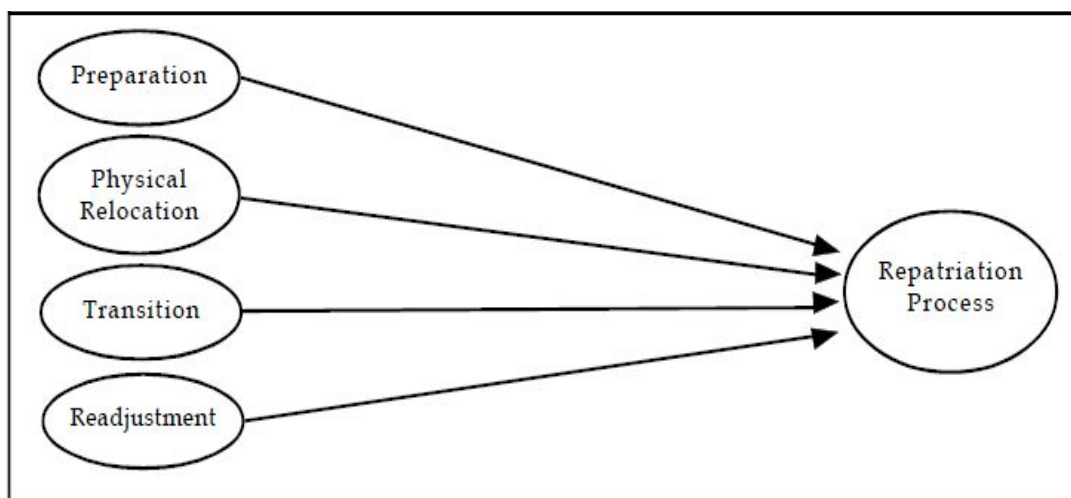
Source: P J Dowling, International HRM (2001) p. 206

11.7 KNOWLEDGE TRANSFER IN MNC :

Managing the process of repatriation should be of concern to multinationals that desire to maximise the benefits of international assignments and create a large internal labour market. A well-designed repatriation process is important in achieving these objectives, for three main reasons : staff availability, return on investment and knowledge transfer.

1. Staff Availability : The way in which the multinational handles repatriation has an impact on staff availability for future needs. Re-entry positions signal the importance given to international experience. If the repatriate is promoted or given a position that obviously capitalises on international experience, other members of the multinational interpret international as a positive career move. If the multinational does not reward expatriate performance, tolerates a high turnover among repatriates or is seen to terminate a repatriate's employment upon re-entry, then the workforce may interpret the acceptance of an international assignment as a high-risk decision in terms of future career progression within the organisation. The multinational's ability to attract high-calibre staff for international assignments is thereby lessened, and this can have a negative effect on the multinational's activities in the long-term.

2. Return on Investment (ROI): Expatriates are expensive. Multinationals try to localize positions through the employment of HCNs but not all positions can be localised. The alternative is a short-term or non-standard assignment to replace the traditional expatriate form. Cost containment is the drive here along with staff immobility.

Example : US multinational spends around one million dollars on each expatriate over the duration of a foreign assignment. And if approximately one in four repatriates exits the firm within 1 year of repatriation, it is a substantial financial and human capital loss to the firm, especially if the skills, knowledge, and experience that the individual gains are important to the firm and scarce in the internal or external labour markets.

Getting a return on this investment would appear to be an important objective, but not easy to achieve. ROI concentrates on the international assignment period, and can be substituted by a cost-benefit analysis to justify a decision to replace expatriates with HCNs, rather than considering gains that accrue to the organisation through repatriated staff.

3. Knowledge Transfer : Common theme in international business that is stressed by company managers is the need for cross-fertilisation of ideas and practices that assist in developing and maintaining competitive advantage. International assignments are a primary method of achieving this objective. Organisations need to make sure that their business, strategies are supported by sound mobility strategies regardless of national boundaries will be increasingly vital to the success of a global organisation.

Given the roles played by expatriates, along with their cost, it is reasonable to expect that multinationals would endeavour to retain key staff and to extract and build upon their international experience.

Several conclusions regarding repatriate attrition rates can be drawn :

1. Knowledge transfer is treated as a one-way activity.

2. Expatriates are sent on international assignments and effectiveness is determined on the performance of their ascribed roles and work responsibilities.

3. Any transfer of knowledge and competence occurs there in the host location, and remains there. Expatriates return to their home base and are reassigned or resign.

4. While performing their tasks in the host location, expatriates develop skills and gain experience, knowledge and network relationships that can then be used upon repatriation in some way or another.

Example :

A project manager working in Russia can report, on re-entry to his UK home base, technical problems encountered and solutions that were developed to overcome these problems, thus sharing the experience. However, not all of the knowledge about that project is explicit. Much will remain tacit and person-bound. What is codified and made explicit often is retained could be applicable to other projects or types of business concerning Russia, such as important contacts, management styles and some technical solutions.

11.8 SUMMARY :

A company's international human resources efforts should complement its level of international development and grow with its international commitments An MNE is always highly dependent and committed to international operations. Its international human resource needs a more extensive than the organizations those of a company that merely exports or import a small portion of its output of supplies. Such companies' need is for the persons that are technically trained or knowledgeable about trade documents, documentation, foreign exchange risk, and political – economic conditions that may affect the trade flows. And MNEs also needs a multinational workforce and managers who can integrate the work effectively.

As a company moves to other foreign operations, it must consider how to staff, motivate, and compensate its foreign work force. The norms in these human resource activities vary substantially from one country to other country and the cause of it is economic, cultural and legal conditions.

Expatriation and repatriation are interrelated.

After the completion of the international assignment, company brings the expatriates back to the home-country.

Repartition process has four identified phases.

MNCs should be responsible enough to manage the repatriation process.

HR should design the proper repatriation programme for the expatriates to avoid complexity after re-entry.

11.9 KEY WORDS :

Knowledge Transfer :

It is the cross-fertilisation of the ideas and practices by expatriates in one country with the employees in other country.

Motivation :

It is the activation or energisation of goal-oriented behavior.

Physical Relocation :

It refers to removing personal effects, breaking ties with colleagues and friends, and travelling to the next posting.

Preparation :

It is the process of developing the plans for the future and gathering the information about the new positions.

Readjustment :

It is coping with reverse culture shock and career demands.

Re-entry Shock :

Returnees often are surprised to experience a re-entry cycle similar in form, but often more intense, to the one they encountered during their experience abroad.

Repatriation :

It is the process of coming back of the expatriate after the completion of the international assignments.

Self-efficacy :

It is the degree to which an individual believes that he can execute a set of behaviours.

Transition :

It means settling into temporary accommodation where necessary, making arrangements for housing and schooling.

11.10 SELF ASSESSMENT QUESTIONS :

1. Imagine yourself as the expatriate manager who is about to re-enter the home country in one month. Explain the factors that will have a detrimental effect on your career after coming to home country.

2. Elucidate the role of job related factors and social factors in the re-entry process of expatriates.

3. "A well-designed repatriation process is important in achieving maximum benefit of international assignments." Comment.

4. "It seems important to understand why re-entry is a problem". Justify this statement.

5. Being the HR of a company, analyse the important aspects that should be included in designing the repatriation programme.

6. "The aims of cross-fertilisation of ideas and best practices given to justify cross-border movement of staff require the right environment to facilitate sharing of information and knowledge." Do you agree? Justify.

7. Justify the statement "The way in which the multinational handles repatriation has an impact on staff availability for future needs." Give examples.

8. Critically analyse the factors that forces the expatriate to leave the MNCs on repatriation.

9. You are the HR manager of IT Company. Design a repatriation programme for your organisation's expatriates who will be coming to their home-country soon.

10. Analyse the challenges in the new role which the expatriate has to face on re-entry.

11. What do you think should be the role of the MNCs in managing the repatriation process?

11.11 SUGGESTED READINGS :

1. International Human Resource Management (2008),PL Rao Excel Books.

2. International Human Resource Management (2013) Miguel Martine Lucio, Sage Publications.

3. Managing Global Work force (2013), Charles M.Vance, Eastern Economy Edition International Human Resource Management (2018) Annamalo& Murugan, Discover Publishing House

Dr . Prasad Chundi

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LESSON – 12

INTERNATIONAL COMPENSATION

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Learning objectives :

- ✓   To understand the approaches to International compensation
- ✓   To learn the influence compensation policy
- ✓   To know the components of International compensation

Structure of the lesson :

12.1 INTRODUCTION :

Compensation tends to vary widely around the business world due to the economic differences, differences in development levels, political factors, traditions and culture. A comparison between U.S. and Chinese worker compensation showed that average wage of the Chinese worker is only about 3 to 5% of that of U.S. worker, Chinese are not required to pay income tax, insurance premiums, or pension plan payments. Chinese housing costs only about one dollar a month, so the difference in net income is not as large.

Employee benefits vary by country. Benefits and employee perks constitute a much greater share of the overall compensation package in Europe than in America. Cross-cultural differences impact the importance of benefits. Like, vacation time is not an important benefit to the Japanese worker who seldom takes more than three or four days off in a year, but vacation and holiday time-off is critical in Africa, most Muslim nations, and some Latin American countries.

International oriented managers have to be accommodated into a global compensation policy which is different from the typical compensation policy in the home-country consisting of the lump-sum reimbursements. So, MNCs are gaining the insight of the changing compensation policies for its international managers and the emerging issues associated in the global compensation package.

12.2 COMPENSATION :

Compensation is the financial remuneration the employees receive in exchange for their labour. Compensation management deals with wages, salaries, pay increase, and other monetary issues. The compensation system is designed to reward employees in an equitable manner and to serve as an inducement for the attraction and retention of a good workforce.

Compensation decisions should achieve six critical objectives :

1. Be legal : Compensation decisions should be consistent with federal, state, and local laws and regulation.

2. Be adequate : Compensation should be sufficient to attract qualified job applications and retain them.

3. Be motivating : Compensation should be sufficient to provide the necessary incentives to motivate employees to high performance levels.

4. Be equitable : Employees should be made to feel that the compensation system is equitable.

5. Provide security : Employees should be made to feel that their income is secure and predictable.

6. Be cost-benefit effective : The employing organisation should administer the compensation system effectively.

HR executives in global firms spend a great deal of time and effort in designing and managing compensation programmes because of their high costs and impact on corporate performance, commitment of employees and their retention. Compensation influences organisational culture, recruitment and selection of competent employees, motivation and performance. So, there are issues in designing compensation programmes, such as parity between HCNs and PCNs, state of the labour market and relevant national laws and practices.

1. Objectives of the international compensation plan :

Compensation decisions are strategic decisions and play a key role in achieving performance and sustainable competitive advantage for international firms. Following are the objectives of designing the compensation plan :

(a) These policy decisions should be consistent with the overall strategy, structure and business needs of the multinational.

(b) The policy should attract and retain the best staff in those areas where the firm has greatest needs and opportunities and where its core competency lies.

(c) The policy must facilitate the transfer of international employees in a cost effective manner.

(d) The policy should give due consideration to equity and ease of administration.

(e) They should reduce cost of operations and enhance commitment of employees and facilitate international posting and transfer of employees.

These policy decisions regarding compensation and benefits require the knowledge of employment and taxation laws, customs, cost of living index, environment, employment practices of various countries. Without such comprehensive knowledge and database, the corporate HR executive will not be able to advise expatriates regarding avoidance of double taxation or to reimburse the actual costs or decide about incentives that will encourage employees to take up foreign assignments.

The knowledge of labour markets and industry norms regarding benefits and compensation is also necessary. To ensure equity with PCNs, the salary of expatriates has to be adjusted for foreign currency fluctuations of the two countries unless they are paid full salary and allowances in the home country currency. If the expatriates are paid in local currency, then their salary should also be adjusted for rise in the cost of living in that country from time to time. So, HR managers have to continuously watch foreign exchange rate fluctuations and monitor rate of inflation or cost of living index in different countries.

2. Employee aspirations from the compensation policy :

International employee will also have a number of objectives that need to be achieved from the firm's compensation policy. They are :

(a) They will expect the policy to offer financial protection in terms of benefits, social security, and living costs in the foreign location.

(b) They will expect that a foreign assignment will offer opportunities for financial advancement through income and/or savings.

(c) They will expect that issues such as housing, education of children, and recreation will be addressed in the policy.

12.3 APPROACHES TO INTERNATIONAL COMPENSATION :

Whenever the employee is send abroad for the assignment, it is preceded by the fresh negotiations between the employer and the employee for its compensation.

There are two main approaches in the area of international compensation: Going Rate Approach and Balance Sheet Approach.

12.3.1 Going Rate Approach :

In this approach, the base salary for international transfer is linked to the salary structure in the host country. The multinational obtains information from local compensation surveys and must decide whether local nationals (HCNs), expatriates of the same nationality, or expatriates of all nationalities will be the reference point terms of benchmarking.

Example : A Japanese bank operating in New York would need to decide whether its reference point would be local U.S. salaries, other Japanese competitors in New York, or all foreign banks operating in New York. With the Going Rate Approach, if the location is in a low- pay country, the multinational usually supplements base pay with additional benefits and payments.

Features of the Going Rate Approach :

1. Based on local market rates.

2. Relies on survey comparisons.

    (a) Local nationals (HCNs).

    (b) Expatriates of same nationality.

    (c) Expatriates of all nationalities.

3. Compensation based on the selected survey comparison.

4. Base pay and benefits may be supplemented by additional payments for low-pay countries.

Advantages of the Going Rate Approach :

1. Equality with local nationals (very effective in attracting PCNs or TCNs to a location that pays higher salaries than those received in the home country).

2. Approach is simple and easy for expatriates to understand.

3. Expatriates are able to identify with the host country and there is equity among expatriates of different nationalities.

Disadvantages of the Going Rate Approach :

1. Variation between assignments for the same employees.

2. Variation between expatriates of the same nationality in different countries.

3. Potential re-entry problems.

12.3.2   Balance Sheet Approach :

It is widely used approach for international compensation. The basic objective is to "keep the expatriate whole", i.e., maintaining relatively to PCN colleagues, and compensating for the costs of an international assignment through maintenance of home-country living standard, plus a financial inducement to make the package attractive. The approach links the base salary for PCNs and TCNs to the salary structure of the relevant home country.

Example : U.S. executive taking up an international position would have his or her compensation package built on the U.S. base-salary level rather than that applicable to the host country.

The key assumption of this approach is that foreign assignees should not suffer a material loss due their transfer, and this is accomplished through the utilisation of what is

generally referred to as the balance sheet approach.

Features of the Balance Sheet Approach :

1.   The basic objective is maintenance of home-country living standard, plus financial inducements.

2.   Home-country pay and benefits are the foundations of this approach.

3.   Adjustment to home package to balance additional expenditure in host country.

4.   Financial incentives (expatriate/hardship premium) added to make the package attractive.

5.   Most common system in usage by multinational firms.

There are four major categories of outlays incurred by expatriates that are incorporated in the balance sheet approach :

1.   **Goods and services :** Home-country outlays for items such as food, personal care, clothing, household furnishings, recreation, transportation, and medical care.

2.   **Housing :** Major costs associated with housing in the host country.

3.   **Income taxes :** Parent – country and host-country income taxes.

4.   **Reserve :** Contributions to savings, payments for benefits, pension contributions, investments, education expenses, social security taxes, etc.

Where costs associated with the host-country assignment exceed equivalent costs in the parent country, these costs are met by both the firm and the expatriate to ensure that parent-country equivalent purchasing power is achieved.

Table 12.1 Expatriate Compensation Worksheet

Employee:	Brian Smith		
Position:	Marketing Manager		
Country:	New Euphoria		
Reason for change:	New Assignment		
Effective date of change:	1st February 2024		
Item	**Amount $ PA**	**Paid in $ PA**	**Paid in local currency INR PA**
Base salary	135,000	67,500	101,250
Cost of living allowance	33,750		50,625
Overseas service premium (20%)	27,000	27,000	
Hardship allowance (20%)	27,000	27,000	
Housing deduction (7%)	-9,450	-9,450	
Tax deduction	-51,079	-51,079	
Total	**162,221**	**60,971**	**151,875**
COLA Index = 1500			
Exchange Rate = 1.5	Authorized / Date		

In this example, an Australian expatriate is assigned to a country called New Euphoria which has a COLA index of 150 relative to Australia, and an exchange rate of 1.5 relative to the A$. In addition to a Foreign Service premium, a hardship allowance is also payable for this location. Housing is provided by the firm, and a national cost for this is recognised by a 7% deduction from the package, along with a national tax deduction. The expatriate can see from this spreadsheet what components are offered in the package and how the package split between Australian currency and Net Euphoria currency.

Advantages of the Balance Sheet Approach :

1.   There is equity between assignments and expatriates of the same nationality.

2.   It facilitates the re-entry of the expatriates.

3.   It is easy to communicate to the employees.

Disadvantages of the Balance Sheet Approach :

1.   It is quite difficult and complex to administer.

2.   It can result in great disparity between expatriates of different nationalities and between the expatriates and local nationals.

12.3.3   Differentiating between PCNs and TCNs :

One of the outcomes of the balance sheet approach is to produce differentiation between expatriate employees of different nationalities because of the use of nationality to determine the relevant home-country base salary. This is a differentiation between PCNs and TCNs. Many TCNs have a great deal of international experience because they often move from country to country in the service of one multinational (or several) headquarters in a country other than their own (example, and Indian banker may work in the Singapore branch of a U.S. bank).

Multinational firms need to match their compensation policies with their staffing policies and general HR philosophy.

1.   If a firm has an ethnocentric staffing policy, its compensation policy should be one of keeping the expatriate whole (that is, maintaining relativity to PCN colleagues plus compensating for the costs of international services).

2.   If the staffing policy follows a geocentric approach, there may be no clear 'home' for the TCN, and the firm will need to consider establishing a system of international base pay for key managers paid in a major reserve currency, such as the U.S. dollar or the Deutsche Mark.

Nationality influences on managing compensation and reward systems internationally, and propose a strategic model as :

Figure 12.1 : Strategic Flexibility Model of International Compensation
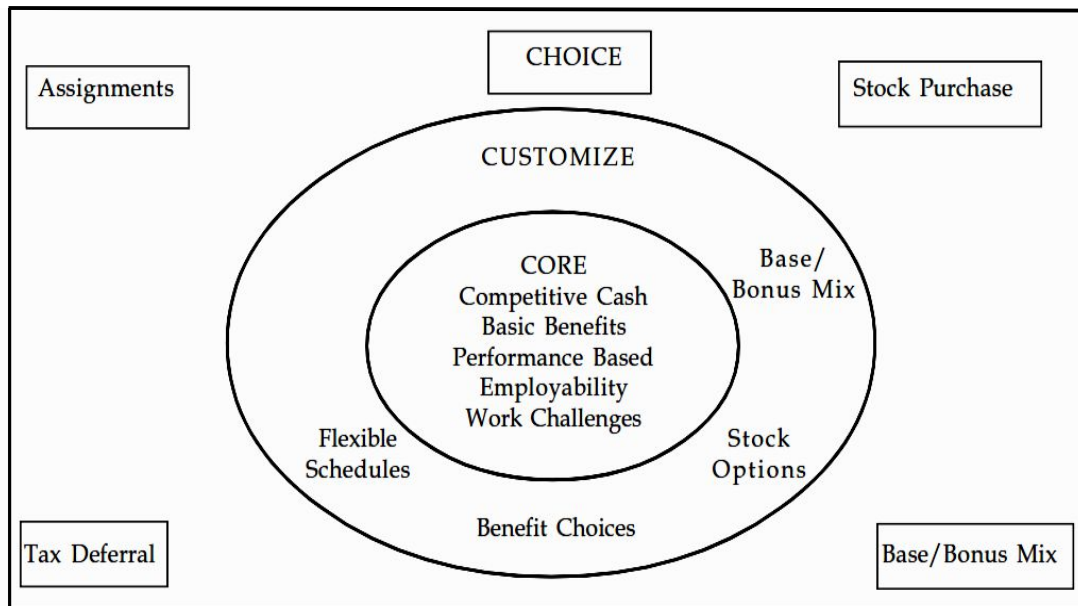
This model groups consist of total compensation into three sets: core, crafted, and choice.

1. Specific practices in the core section may vary according to market and local conditions but must be consistent with the core policies.

2. Crafted set of compensation elements assumes that regional managers have discretion to choose from a menu of compensation forms.

3. Alternatives in the choice set of offer flexibility for employees to select among various forms of compensation.

The model supports the performance management approach. This model has the potential to overcome the problems identified in both the Going Rate and Balance Sheet approaches to international compensation because firms may be able to utilise aspects of both approaches that suit particular circumstances.

12.3.4 International Living Costs Data :

Obtaining up-to-date information on international living costs is a constant issue for multinationals. Many multinationals retain the services of consulting firms that may offer a broad range of services or provide highly specialised services relevant to HRM in the multinational context. With regard to international living costs, a number of consulting firms offer regular surveys calculating cost-of-living index that can be updated in terms of currency exchange rates.

Multinationals using the balance sheet approach must constantly update compensation packages with new data on living costs, an ongoing administrative requirement. This is an issue to which expatriate employees pay great attention, and forms the basis of many complaints if updating substantially lags behind any rise in living costs. Multinationals must also be able to respond to unexpected events, such as the currency and stock market crash

that suddenly occurred in a number of Asian countries. Some countries, such as Indonesia, faced a devaluation of their currency by over 50% against the U.S. dollar in a matter of weeks, which had a dramatic impact on prices and the cost of living.

MNCs should focus on business costs rather than living costs for expatriates because the multinational firm is interested in the overall cost of doing business in a particular country as well as the more micro issue of expatriate living costs.

Germany is the most expensive country overall because of its very high basic wages, while the second most expensive rank for the United States is in large part because of high executive salaries. In general, developed countries rank as more expensive than developing countries because their wage costs are higher.

12.4 KEY COMPONENTS OF INTERNATIONAL COMPENSATION PROGRAMME :

The area of international compensation is complex primarily because multinationals must cater for three categories of employees: PCNs, TCNs, and HCNs. The key components of international compensation include base salary, Foreign Service inducement / hardship programme, allowances, benefits and taxation.

1. Base Salary :

The term base salary acquires a different meaning when employees go abroad. In a domestic context, base salary denotes the amount of cash compensation that serves as a benchmark for other compensation elements (example, bonuses and benefits). For expatriates, it is the primary component of a package of allowances, many of which are directly related to base salary (example, Foreign Service premium, cost-of-living allowance, and housing allowance) as well as the basis for in-service benefits and pension contributions. The base salary is the foundation block for international compensation and the employee's package depending on whether the base salary is linked to the home country of the PCN or TCN or whether an international rate is paid.

2. Foreign Service Inducement / Hardship Premium :

Parent-country nationals often receive a salary premium as an inducement to accept a foreign assignment as compensation for any hardship caused by the transfer. Under such circumstances, the definition of hardship, eligibility for the premium, and amount and timing of payment must be addressed. These payments are more commonly paid to PCNs than TCNs. Foreign service inducements are usually made in the form of a percentage of salary, usually 5 to 40% of base pay. Such payments vary, depending upon the assignment, actual hardship, tax consequences, and length of assignment.

3. Allowances :

Issue concerning allowances can be very challenging to a firm establishing an overall compensation policy because of the various forms of allowances that exist. The Cost-of-living Allowance (COLA) involves a payment to compensate for differences in expenditures between the home country and the foreign country.

(a)   Housing allowance provision implies that employees should be entitled to maintain their home-country living standards. Such allowances are often paid on either an assessed or an actual basis. Other alternatives include company-provided housing, either mandatory or optional; a fixed housing allowance; or assessment of income, out of which actual housing costs are paid. Financial assistance and protection in connection with the sale or leasing of an expatriate's former residence are offered by many multinationals. Those in the banking and finance industry tend to be the most generous, offering assistance in sale or leasing, payment of closing costs, payment of leasing management fees, rent protection, and equity protection.

(b)   Home leave allowances allows the employers to cover the expense of one or more trips back to the home country each year. The purpose of paying for such trips is to give expatriates the opportunity to renew family and business ties, thereby helping them to avoid adjustment problems when they are repatriated.

(c)   Educational allowances for expatriate's children are an integral part of any international compensation policy. Allowances for education can cover items such as tuition, language class tuition, enrolment fees, books and supplies, transportation, room and board, and uniforms. The level of education provided for, the adequacy of local schools, and transportation of dependents who are being educated in other locations may present problems for multinationals. The employer typically covers the cost of local or boarding school for dependent children, although there may be restrictions, depending on the availability of good local schools and on their fees.

(d)   Relocation allowances usually cover moving, shipping, and storage charges, temporary living expenses, subsidies regarding appliance or car purchases (or sales), and down payments or lease-related charges. Allowances regarding perquisites (cars, club memberships, servants, etc.) may also need to be considered (usually for more senior positions, but this is according to location). These allowances are often contingent upon tax-equalisation policies and practices in both the home and the host countries.

(e)   Spouse assistance allowance : This is provided by many multinational firms as it help guard against or offset income lost by an expatriate's spouse as a result of relocating abroad. Although some firms may pay an allowance to make up for a spouse's lost income, U.S. firms are beginning to focus on providing spouses with employment opportunities abroad, either by offering job-search assistance or employment in the firm's foreign unit.

4. Benefits :

International benefits bring more difficulties while dealing with compensation for the employees. Pension plans are very difficult to deal with country to country because national practices vary considerably. Transportability of pension plans, medical coverage, and social security benefits are very difficult to normalise.

Most U.S. PCNs typically remain under their home-country's benefit plan. In some countries, expatriates cannot opt out of local social security programmes. In such circumstances, the firm normally pays for these additional costs. European PCNs and TCNs enjoy portable social security benefits within the European Union.

Multinationals also provide vacations and special leave. Included as part of the employee's regular vacation, annual home leave usually provides airfares for families to return to their home countries.

Rest and rehabilitation leave based on the conditions of the host country also provides the employee's family with free airfares to a more comfortable location near the host country. Emergency provisions are available in case of a death or illness in the family. Employees in hardship locations often receive additional leave expense payments and rest and rehabilitation periods.

5. Taxation :

Taxation causes the most concern to HR practitioners and expatriates (both PCNs and TCNs) since it generally evokes emotional responses. No one enjoys paying taxes and this issue can be very time consuming for both the firm and the expatriate. For the U.S. expatriate, an assignment abroad can mean being double – taxed-both in the country of assignment and in the United States. This tax cost, combined with all the other expatriate costs, makes some U.S. multinationals think twice about making use of expatriates.

Tax equalisation is by far the more common taxation policy used by multinationals. Thus, for PCN, tax payments equal to the liability of a home-country taxpayer with the same income and family status are imposed on the employee's salary and bonus. The firm pays any additional premiums or allowances, tax-free to the employee. As multinationals operate in more and more countries, they are subject to widely discrepant income tax rates.

Example : In Singapore, if the expatriate receives the payment for the services rendered outside the country are not subjected to Singapore taxation, if a separate contract is established between the expatriate and a non-Singapore employer.

12.4.1 Termination of Contract :

One aspect of compensation that varies from country to country and has important implications for both subsidiary HR managers and HQ-based managers is the issue of what happens if the MNC decides to leave a foreign country or another firm takes over the management, and is not interested in doing business in this country. When such a decision is made, termination liabilities may result in significant payoffs to employees. By tradition, or law, or union contract, the MNC may be required to pay up to two years' salary to employees who are involuntarily terminated.

12.5 SUMMARY :

Compensation tends to vary widely around the business world due to the economic differences, differences in development levels, political factors, traditions and culture. Compensation is the financial remuneration the employees receive in exchange for

their labour. HR executives in global firms spend a great deal of time and effort in designing and managing compensation programmes because of their high costs and impact on corporate performance, commitment of employees and their retention. Whenever the employee is send abroad for the assignment, it is preceded by the fresh negotiations between the employer and the employee for its compensation.

12.6 KEY WORDS :

A Say on Pay :

A non-binding vote of the general meeting to approve director pay packages.

Balance Sheet Approach :

The base salary for PCNs and TCNs to the salary structure of the relevant home country.

Benefit :

An indirect reward given to the employees as a part of the organisational membership.

Compensation :

It is the financial remuneration the employees receive in exchange for their labour.

Going Rate Approach :

The base salary for international transfer is linked to the salary structure in the host county.

12.7 SELF ASSESSMENT QUESTIONS :

1. Examine the key components of an international compensation plan for an international firm.

2. Analyse the approaches for the international compensation plan.

3. Being a corporate HR, explain your plan/approaches you will follow for handling international taxation of the employees.

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Dr. K. Abraham Lincoln

COMPENSATION PRACTICES

Learning objectives :

✓ To understand the approaches to International compensation

✓ To learn the influence compensation policy

✓ To know the components of International compensation

Structure of the lesson :

13.1 INTRODUCTION :

Maintaining a domestic compensation program that supports the strategic goals of the organization and meets the needs of employees is a difficult challenge. This challenge is intensified when a similar program must be designed to operate in multiple countries with different cultures. For organizations competing in a global marketplace, managing compensation requires a thorough understanding of the taxation of compensation and benefits, differing state social systems, differences in living standards and employee values and expectations. Some of the most challenging questions in compensation practices are following :

Traditional compensation systems for expatriates, such as the balance sheet approach and going rate approach, may not be adequate for the company or expatriate in facilitating an case of transfer.

Global enterprises require global compensation systems that allow the organization to maintain the flexibility and ease of transfer between countries and regions while providing employees a just wage.

A compensation system must be designed to work regardless of where the expatriate is sent on assignment. To some degree, this requires rethinking the traditional focus on location and national culture in determining expatriate compensation.

13.2 TRADITIONAL SYSTEMS OF GLOBAL COMPENSATION :

The traditional global compensation schemes, the balance sheet method are most commonly used. More than 85% of US companies use some variation of this method to compensate their expatriates. The objective of the balance sheet method is to keep the expatriate economically whole or to ensure that the expatriate doesn't financially suffer or come out ahead as a result of the international assignment. It is intended to maintain the employee's home standard of living during the international assignment. The base salary for parent country nationals and third country nationals is linked to the salary structure of the relevant home country. Additional salary is often given to cover tax differences, housing costs and the other basic living expenses. Perquisites may also be offered such as Foreign Service premiums, hardship allowance, relocation assistance and home leave allowances to help make the assignment more attractive. There are several versions of the balance sheet approach, such as the headquarters based system. They each essentially are applied in the same manner with the primary difference being that the base salary is equated with a different location.

An advantage of the balance sheet method and perhaps the reason why it is one of the most widely used international compensation scheme is that it eases the repatriation process because it generally maintains comparable compensation with home country colleagues. It further provides equity between assignments and is relatively easy for employees to understand. Multinationals using the balance sheet approach must frequently review compensation package to ensure that it is keeping up with any rise in cost of living.

Opposite to the balance sheet method is the host country based or going rate approach. This approach uses comparable salary in the host country as the base in setting compensation. It perhaps best integrates the expatriate into the host country and host business unit more quickly because salary survey comparisons are closely linked with host country nationals. As an alternative, compensation may be bench-marked against expatriates of the same nationality or of all nationalities within the local market. Advantages afforded by this approach include better identification with the host country living standards and host company compensation levels. This may be particularly important in diffusing any resentment that may develop among local national employees regarding inequities in expatriate compensation.

These traditional methods of international compensation are based on the premise that eventually the expatriate will return to his or her home country. However, as globalization requires a constant mobile workforce, these traditional compensation packages are becoming less and less adequate. Challenges develop as the need to transfer employees among international business units increases. It becomes an expensive proposition for companies to continue paying salaries, allowances and perquisites based on a home country location when there are no immediate plans to repatriate the employee.

13.3 CHALLENGES FOR THE TRADITIONAL SYSTEM :

Although the balance sheet approach provides the benefits of equity for the expatriate between assignments and better facilitates repatriation, it generally comes at a high cost to the company. The longer the foreign assignment lasts, the challenge to maintain a life style the expatriate may have been accustomed to at home become greater. The balances sheet approach infers that the expatriate should never have to make any adjustments to his or her host country and company. This can result in great compensation disparities between the expatriate and host company employees as well as third — country expatriates. Problems arise when employees are paid different amounts for performing essentially the same job, leaving a perception of unfairness among the lower paid employees. Another challenge with the balance sheet approach is the complexity in administering the program as more expatriates from different home countries are sent abroad. Multiple home countries complicate the administration of the base pay and allowances required to keep the expatriates economically whole.

The going rate approach also has its disadvantages as a global compensation program. Assignments to multiple locations likely result in variation of pay. This is particularly evident when an employee is transferred from an economically advanced location to perhaps a Second or Third World country. Expatriates facing a possible loss of compensation may be reluctant to take the pending assignment. Furthermore, expatriates from the same home country performing equivalent work in different locations can have a notable difference in pay depending on the host country compensation level. Again, this can result in expatriates being reluctant to take the lower compensating assignments and lead to rivalry among coworkers for the higher paying assignments.

Toward a Global Compensation System :

A global economy has emerged as companies all over the world are joining forces through alliances, mergers, joint ventures, acquisitions and the like. The mobility of the workforce is increasing as companies recruit employees worldwide. Multinational corporations are looking to foster collaboration among their foreign business units. The availability of television, the internet, e-mail, cell phones and other means of instant communication have allowed employees to easily obtain and exchange information about pay and other working conditions. To be competitive in this global economy, companies must identify those skills and competencies that they require globally and pay accordingly.

Much has been written on compensating the expatriate from a home country perspective. The assumption is that the international assignment is temporary and therefore

an inducement should be paid to entice the expatriate to take the assignment. However, as true globalization of business becomes more common, the trend is drifting away from the temporary expatriate with a home base country toward true international employees who are expected to remain abroad throughout their careers. It is becoming more important to establish a strategic compensation system that provides the flexibility to easily relocate employees to meet company needs, equability among similar jobs worldwide, cost savings and ease of manageability of the compensation program. To create a global culture where employees located in different parts of the world can feel a sense of equality within the organization, companies must implement a core compensation program that is essentially similar everywhere.

13.4 GLOBAL COMPENSATION STRATEGIES AND BEST PRACTICES :

Formulating and implementing a domestic compensation strategy is proving to be a challenging task for most of the companies. The challenge increases many folds when the need to foster a similar compensation strategy for the employees not belonging to the native country.

Global compensation can simply be defined as remuneration for employees working for a multinational company. This remuneration is set by keeping in view the economic condition of the country, the working culture, living standard, taxation policy of the host nation, and expectations of the people in the society.

13.5 THE PROBLEM ARISES IN TWO BROAD SCENARIOS :

1. Employees bought together from different countries for the same project but have different taxation and payment rules in their own country.

2. Payment for the same nationals who have been sent to different countries for similar work.

In both the conditions, the home country's compensation rules and the compensation system of other involved countries are to be considered. This gives a clear picture that simply following the traditional compensation system which only considers balance sheet and going rate approach won't be of any help in the changing business environment. As they have moving employees, the wages should be fair enough and require a foolproof Global Compensation system.

There are mainly three most used traditional compensation systems -

Balance Sheet Method :

In the whereabouts of 85 percent of companies all over the world are accustomed to using this method. This approach is thus far the most accepted and followed. The employee is given the same pay he was given in his home country plus the wide range of premiums and allowances to counter the costs of expatriation.

This approach on one side is the most suited one for the employees, but for the companies, it proves to be a costly one. This triggers some companies to search for less costly options and sometimes they don't provide the employees with the incentives they should have

received in ideal situations. Still, the organizations look to provide the cozy lifestyle of the employee which he had in his home country; the company has to overstretch on its resources as the time taken to finish the assignment takes longer. This also makes a huge difference in the salary of repatriating employees and the one that lives in the homeland. It also makes a salary difference between the roaming employee and the third country employee.

Going Rate Approach :

In this case, the remuneration is calculated based on the compensation requirements of the host country. As the compensation is decided after conducting a survey of the host country on varied parameters, it becomes easier for the employee to get integrated and identified with the foreign country which is an add on.

This is a far more suited approach for the companies as this not only diffuses the possible resentment from the differing culture's in the world, it also saves a lot of money for the company. The problem comes up when the company settled in a developed country has to send their employee with a huge salary package to head to a third world country where the conditions are much different where the Going rate approach will suggest a salary reduction. It will make the employees reluctant to take such assignments.

Hybrid approach :

It isn't an approach in itself, in a nutshell, is a combination of the aforementioned approaches. It is aimed at combining the best of the two strategies. It involves making the salary calculations based on the balance sheet approach and then comparing the results arrived with those of the host country salary structure. Then reaching an acceptable salary scheme that will have the impact of both approaches.

This approach might work with small scale organizations having small assignee populations, but when exposed to large scale organizations it will surely reflect deviations. As there is no logical ground behind reaching the salary strategy, it's more of like reaching an average of the earlier mentioned approaches.

The companies all over the world are getting more and more globalized requiring most of its employees to constantly make international assignment trips. Following traditional compensation, systems are not practical considering the entirely different circumstances.

13.6 DIRE NEED OF A GLOBAL COMPENSATION SYSTEM :

It is a known factor, as the world is getting globalized, small or large companies all over the world are acquiring more and more small companies and thereby enlarging their business. This calls for a more mobile workforce who need a comprehensive approach for adequate compensation. There comes the need for a strategic compensation system where there is a common core compensation helping in cultivating a sense of oneness within the industry.

13.7 KEY COMPONENTS THE COMPANIES MUST CONSIDER FOR GLOBAL PAY STRATEGY :

Currency Difference or Inflation :

Even when the currency of a country is booming can harm a company with branches outside the country. For exporting goods from outside cost extra as other currencies aren't doing well enough.

This makes the companies pay for an employee overseas to get his compensation costs reduced. It also affects the companies that have ties back to the strong currency country and must pay a lot more to make up with the converted amount.

Similar Compensation for similar jobs :

Grouping employees who work abroad according to their work nature creating a Grouped Global Executives who share common responsibilities who must implement important strategies enacted by the company and report directly to an assigned official. The advantage of this strategy is that the payment is entirely based on their responsibilities rather than their current location and is the same as their colleagues from the same group.

Even the incentives given annually can also be synchronized with the requirements of the company and its goals while giving the regional disparities due consideration. The position given to the company executives, in which they must relocate all around the world, makes them a better candidate in the future to even lead the company.

13.8 COMPARING GLOBAL AND LOCAL PAY TO FORM COMMON STANDARDS :

Forming a criterion from which the payment for global employees can be paid is largely influenced by the local payment system of the company. This causes disparity among the payment and extra compensation in some cases. When the payment is made considering the local system, the fund will be low for some employees abroad to live while other global employees may get a lot of extra payrolls.

When the annual incentives are given the disparity becomes tremendous as it is calculated as a percentage of the basic pay. This reason calls for a requirement of salary allocation based on the location of the employee groups. This localization of salary criterion makes it a more blended approach.

Pay design :

Many companies try to provide extra payments for the employees or thirteen-month salary as part of the Christmas or festive allowance. While abiding by the law and keeping the competition ablaze is more than challenging in these cases.

As the changing circumstances, acquired rights are getting addressed by the LTI's a lot. Thus, the need for payment to performance is getting higher and higher. Thus, a US model of compensation where the salary is directly related to the performance goals while the basic pay won't be anything considerable.

In some countries, they are far from enabling such innovative yet money-saving systems where the right person gets the right pay. This poses a challenge to integrate the system all over the globe.

With this view in mind, let's look at some comprehensive and innovative ideas for a better Global Compensation reporting.

13.9 MAINTAINING A ROBUST GLOBAL COMPENSATION FRAMEWORK IN TERMS OF REPORTING :

Communicate assignee tax and social security positions :

Clear instructions must be given regarding payroll to minimize the possibility of making incorrect payments to assignees or to local revenue authorities. Companies spend their precious pool of resources to ensure the correct tax and social security position of their assignees.

Precise data validation and controls :

This will ensure that any incorrect or missing payments are detected and corrected before they are forwarded to employees. It will also add to the reassurance level of internal authorities and internal auditors.

Ensuring post-payroll analysis :

It is advisable to include a post payroll analysis program that will point out the discrepancies and omissions that can be adjusted in the next payroll cycle. It will rule out the possibility of out-of-policy or duplicate payments that are mistakenly delivered locally.

13.10 SOCIAL SECURITY FOR INTERNATIONAL WORKERS THROUGH SOCIAL SECURITY AGREEMENTS :

Advent of Globalisation and Economic liberalization, coupled with changing demographic profile of the world has made International migration of labour inevitable. India, with a large pool of young and technically qualified manpower has emerged as a global reservoir of human capital. This has encouraged mobility of skilled workforce from India to other countries.

Indian professionals working in various countries were required to make the mandatory social security contributions in the countries of their posting. However despite making monetary contributions, such migrant Indian expatriates were deprived of social security benefits in the host country.

The contributions made by such migrant professionals during their stay in the host country were lost as the benefits are not payable before expiry of a minimum qualifying period and return of contribution paid in that country is not available in case of return to the home country.

Social Security Agreement (SSA) :

With a view to protect the rights of migrant workers, Government of India decided

to enter into bilateral Social Security Agreements (SSAs). A Social Security Agreement (SSA) coordinates the social security schemes of two contracting states in order to ensure continuity of social security coverage and facilitate extension of benefits to migrant workers, on reciprocal basis.

A SSA generally covers four important provisions namely, Detachment, Totalisation', 'Portability' and 'Equality of treatment'.
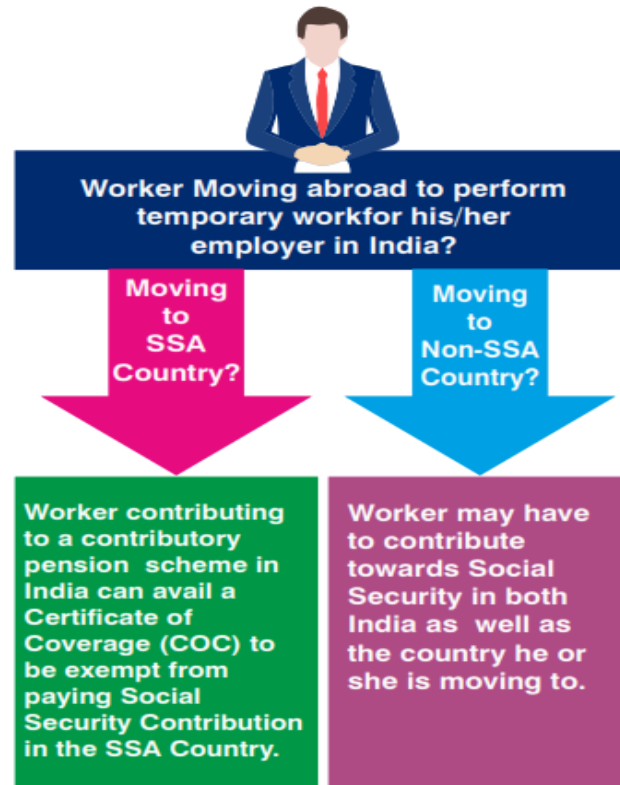
(i) **Detachment** – Indian employees working in countries with which India has Social Security Agreements are exempted from contributing to their Social Security System, provided they are complying with the Indian Social Security System. This exemption is available for a specified period stipulated in the agreement.

(ii) **Totalisation** – The period of service rendered in SSA country is counted for determining eligibility for pension. The actual pensionary benefits, however, are payable only for the period of contributory service in India on pro-rata basis.

(iii) **Portability** – Pension benefits are payable without reduction, direct to the beneficiaries choosing to reside in the home country or in any other country.

(iv) **Equality of Treatment** – Indian Nationals are to be treated equal to Nationals of the host country with regard to applicability of legislations covered under the SSA.

EPFO has been designated as the Competent Institution / Liaison Agency to operate the provisions of the SSAs and for issuing Certificates of Coverage (COC) to the employees of establishments covered under the EPF Act as well as the employees of other social security providers like the Seamen's Provident Fund, Banks etc., when they are posted abroad in a country having SSA with India.

13.11 SPECIAL PROVISIONS IN RESPECT OF INTERNATIONAL WORKER :

To implement the provisions of bilateral SSAs, enabling provisions for International Worker (IW) were introduced by inserting Para 83 in the EPF Scheme and Para 43A in Employees' Pension Scheme and given effect from 1 October, 2008.

The special provisions provide for identification, exclusion, membership and benefits in respect of an international worker.

Definition of International Worker (IW) :

An International Worker (IW) may be an Indian worker or a foreign national as defined under paragraph 2(ja) of the Scheme, 1952

i) An Indian employee having worked or going to work in a foreign country with which India has entered into a social security agreement and being eligible to avail the benefits under social security programme of that country, by virtue of the eligibility gained or going to gain, under the said agreement;

ii) An employee other than an Indian employee, holding other than an Indian Passport, working for an establishment in India to which the EPF & MP Act, 1952 applies;

Coverage :

Every International Worker (as defined in para 83 of the EPF Scheme, 1952), other than an excluded employee is required to be a member of the Employees' Provident Fund from the date of joining of the EPF covered establishment. Excluded employee in case of International Workers is of two categories :

• National of a SSA country duly issued with a COC by his/her home country.

• Singapore nationals who are contributing to the Social Security system of their home country (in accordance with India Singapore CECA 2005}.

The following 20 Social Security Agreements have been signed by India till date. Various benefits available under the SSAs are mentioned in the table below :

SSAs signed by India and benefits enshrined therein

S No	Country	Date of	Detachment	Totalisation	Portability
1	Belgium	01-09-2009	5 years	√	√
2	Germany	01-10-2009	4 years	√	√
4	Denmark	01-05-2011	5 years (for Indians)	√	√
5	Luxembourg	01-06-2011	5 years		
6	France	01-07-2011	5 years		
7	South Korea	01-11-2011	5 years		
8	Netherlands	01-12-2011	5 years	×	
9	Hungary	01-04-2013	5 years		
10	Finland	01-08-2014	5 Years		
11	Sweden	01-08-2014	2 Years		
12	Czech Republic	01-09-2014	5 Years		
13	Norway	01-01-2015	5 Years		
14	Austria	01-07-2015	5 Years		
15	Canada	01-08-2015	5 Years		
16	Australia	01-01-2016	5 Years		
17	Japan	01-10-2016	5 Years		
18	Quebec	01-04-2017	5 Years		
19	Portugal	08-05-2017	5 Years		
20	Brazil	Yet to enter	3 Years		

Compliance :

For the purpose of compliance, the first step is the identification of all IWs. The IWs include Indians as well as foreigners.

Foreigner IWs :

All foreign nationals working in the EPF covered establishments in India are IWs. Although those foreign nationals who come from an SSA country and are carrying a duly issued COC shall be treated as excluded IW and not required to contribute to the EPFO till the current period of the COC.

13.12 INDIAN IWS :

Indian IWS fall within two categories as

- **Indians going to work in SSA country without COC** : For this category of IWs the contribution is to be made on full salary without any wage ceiling. Such Indians might be having a double liability of Social Security Contribution both in India and in the SSA country

- **Indians going to work in SSA country with COC :** For this category, on the strength of the COC such Indians are not required to contribute to the SSA country, but they are required to contribute to the EPFO on full salary.

Contribution :

The contribution in respect of all IWs is payable on full salary, irrespective of the wage ceiling. The definition of Basic Wages in the Act and the EPF Scheme applies to the IWs also, the only difference being that the wage ceiling does not apply to the IWs.

Certificate of Coverage (COC) :

A "Certificate of Coverage" {COC) is issued in respect of an employee, who is posted for a short-term assignment by his/her Indian employer to a country with whom India has an SSA.

For availing a COC, the worker is required to submit an application online on the IW portal which can be accessed by visiting. https://epfoportals.epindia.gov.in/iwu/.

- The application held by the applicant moves to the login of his/her employer on the IW Portal for their verification through e-sign.

- Upon verification of the employer, the application is received in the login of the concerned Regional office.

- The Concerned Regional office either approves or reject the COC application based on the information provided by the applicant and his/her employer.

- Upon approval the COC is issued to the applicant which he / she can download by logging into their account on the IW Portal.

Benefits to IWs under the schemes administered by EPFO :

Benefits under the EPF Scheme :

1. An IW can avail advances from his EPF Account for various reasons as mentioned under the EPF Scheme.

2. An IW may withdraw, in accordance with Para 83, the full amount standing to

his credit in the fund in the following circumstances only :

a)   On retirement after attaining the age of 58 years

b)   Permanent and total incapacity for work, mental infinity (includes TB, leprosy and cancer)

c)   For members covered under the SSA, on ceasing to be in employment in the EPF covered establishment.

Benefits under the Employees' Pension Scheme, 1995 :

1. An IW having service more than 10 years is eligible for pension under EPS.

2. In case of unfortunate event of the death of the IW, the survivors' including the dependent parents, widow/widower, children as the case may be, are eligible for pension.

3. An IW having service more than 10 years can avail reduced/early pension after attaining the age of 50 years.

4. An IW from country having SSA with India is eligible for withdrawal benefit in case his service after totalisation is less than 10 years.

Benefits under the EDLI Scheme :

In case of death in service of the IW, A nominee or legal heir of an active member of EPFO gets a lump sum payment of up to Rs. 7 Lakhs in case of death of the member during the service period.

13.13 SUMMARY :

Compensation program that supports the strategic goals of the organization and meets the needs of employees is a difficult challenge. This challenge is intensified when a similar program must be designed to operate in multiple countries with different cultures. For organizations competing in a global marketplace, managing compensation requires a thorough understanding of the taxation of compensation and benefits, differing state social systems, differences in living standards and employee values and expectations.

Traditional compensation systems for expatriates, such as the balance sheet approach and going rate approach, may not be adequate for the company or expatriate in facilitating a case of transfer. Global enterprises require global compensation systems that allow the organization to maintain the flexibility and ease of transfer between countries and regions while providing employees a just wage. A compensation system must be designed to work regardless of where the expatriate is sent on assignment. To some degree, this requires rethinking the traditional focus on location and national culture in determining expatriate compensation.

13.14 KEY WORDS :

Global Marketplace :

A global marketplace is a collective term for all local markets in the world, including

the products, services, consumers, and sellers that are exchanged across borders.

International Workers :

An International Worker (IW) is any employee who is a foreign national working in India under an employer registered with the EPFO or an Indian employee who is working in a foreign country with which India has a Social Security Agreement (SSA).

Global pay strategy :

A global pay strategy, or global compensation strategy, is a plan that helps companies pay and reward their international employees fairly and competitively.

Benefit :

An indirect reward given to the employees as a part of the organizational membership.

Compensation :

It is the financial remuneration the employees receive in exchange for their labour.

13.15 SELF ASSESSMENT QUESTIONS :

1. Examine the problem arises in two broad scenarios.

2. Analyse the Comparing Global and Local pay to form Common Standards.

3. Discuss Social Security for International Workers through Social Security agreements.

13.16 SUGGESTED READINGS :

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