

**KARNATAKA STATE**  **OPEN UNIVERSITY**

**Mukthagangotri, Mysuru-570 006**

**MBA**

**(FOURTH SEMESTER)**

***Elective : C-People Management***

**INTERNATIONAL HUMAN RESOURCE MANAGEMENT**



**Department of Studies and Research in Management**

**Course : 23 C**

**Module : 1 to 5**

**KARNATAKA STATE**



**OPEN UNIVERSITY**

**MUKTHAGANGOTHRI, MYSURU- 570 006.**

**DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT**

**M.B.A IV Semester**

**ELECTIVE - C: PEOPLE MANAGEMENT**

**COURSE - 23 C**

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*Dear Learner,*

It gives me immense pleasure to welcome you to the Department of management to study MBA Second Year (Fourth Semester) in our esteemed university.

I am Extremely happy in placing this study material in your hand. The Department of Studies and Research in Management, Karnataka State Open University is providing you Self Learning Materials (SLM) for all the courses developed by the team of experts drawn from various conventional universities, Open Universities, B-Schools Management institutions and professionals.

This study material explains the most complicated topics in a very simple and user-friendly manner, it starts with the Objectives, explanation of concepts followed by Case study, Notes, Summary, Key Words, Self Assessment Questions and References. It provides more value added information on contemporary issues.

Department has focussed on conceptual learning and on avoiding bulky and prolonged description. Every concept has been explained in the simplest manner. Some complicated concepts have been simplified in the study material, so that the learner can learn easily.

The Department of Management, Karnataka State Open University is offering three electives or specialization. You have already chosen the stream in which you wish to specialize i.e. Finance, Marketing and People Management. Hope you will gain expertise in you field.

The specialization in an MBA is due to business complexities and diversities. The MBA is over 100 years old now. Leading management institutes are trying to come up with new and innovative ways to educate the next generations of business leaders. In an MBA, an elective facilitates learners to plank extra focus on one particular area of interest and tailor their MBA in a different way depending on their background and future goals.

**a) Finance** – Finance is one of the most popular specializations of Master of Business Administration (MBA) program. MBA specialization in finance offers, benefits to working professionals in a variety of industries, including commercial and corporate banking, investment services and real estate. MBA in Finance gains you business and financial skills need to work in a number of enterprises. Finance Specialization balances mathematical rigor with management techniques. The finance papers offered by the department builds you as a stock market experts coupled with the knowledge of corporate finance and banking.

**b) Marketing** – Marketing has become one of the most desired specialization both by students and employees in recent years. With the shift to digital and online marketing, most businesses now have their own, in-house marketing teams specialized in bringing customers to the company. Prospective students aspiring to demonstrate that they have the potential to become an excellent marketing manager require a broad skill set. Individuals with soft skills, such as communications, tend to grow well in marketing field. Other desired skills for marketing typically include analytical and leadership skills. The department has carefully chosen the papers to impart the above skills in you.

**c) People Management** – The ever increasing importance of the individuals in the success of a business, makes an in depth study of human behaviour very crucial. Effective management requires insight over the aspects of human behaviour, which can only be gained through study of the related theories and principles of people management. The department has strived to provide you knowledge on training, change management, labour loss and so on to prepare you to face these soft challenges.

In addition to the study material provided to you, I advise you to go through the books which are suggested in the reference of every unit. Further, I also suggest you to make yourself acquainted by reading newspapers and journals.

Apparently, the curriculum designed by the board of studies helps you to prepare for UGC NET, various state commission examinations and UPSC examinations. With these words I welcome you for the wonderful learning experience of business education.

I wish all the best and good luck in your education and successful management career.

**Dr. C. Mahadevamurthy**  
Chairman  
Department of Management  
Karnataka State Open University  
Mukthagangothri, Mysore 570006

## INTRODUCTION

The liberalized economic policies of most of the countries across the world resulted in the emergence of large number of multinational companies and their establishments in many countries across the world. While operating in domestic and in foreign countries the multinational company has select different categories of employees from different nations, they may be the home country nationals, host country national or third country nationals. An international enterprise's profitability and growth are influenced by the way they attract, motivate and retain these cross cultured human resources representing different countries. Hence, for an international human resource manager the challenges are different from that of domestic Human resource manager. Thus, the international human resource manager should understand the dynamics of international human resource to achieve goals.

The entire course 23-C International Human Resource Management grouped into five modules each module consists of four units, every unit has been structured and described to enable the student to understand the contents easily. Each unit begins with learning objectives, so that learner knows as to what he/she is required to learn from the unit. The study material is mainly supported by good number of examples, charts, illustrations and figures wherever necessary with a view to assist the student to develop a clear understanding of the concept and each unit is concluded with summary followed by key words and self-assessment questions to help in framing a self-feedback on ascertaining the extent of learning. An extensive reference given at the end of the unit will be a good help to learner.

**Module – I** comprises of four units (1 to 4): this module focuses on the introduction to international human resource management. At the outset, the unit one explains the approaches to IHRM and distinguishes the IHRM from domestic HRM and then it explains the reasons for emergence of IHRM. The unit two deals with internationalization of HRM, wherein it focuses on socio-cultural context, organizational dynamics and IHRM further it explains the role of culture in internationalization of HRM. The unit three focuses on culture and employee management issues. The unit fourth sheds light on the challenges of international human resource management.

**Module-II** consists of four units (5 to 8). This module deals with strategies for international growth. The unit fifth focuses on logic of global integration and differentiation. The sixth unit explains how to mastering expatriation extends to the limits of global integration. The seventh unit throughs light upon how to become responsive to local situations. The unit eight discusses the challenges of localization.



**Module-III** consists of four units (9 to 12). This module focuses on the recruitment selection and staffing in the international context. The ninth unit deals with all the three groups of human resource, they are home country nationals, host country nationals and third country nationals. The tenth unit focuses on the advantages and disadvantages of different methods of selection and different approaches to multinational staffing decisions. The eleventh unit explains different methods of recruitment wherein head hunting, cross-national advertising, e-recruitment are focused. The twelfth unit deals with selection criteria and techniques.

**Module-IV** consists of four units (13 to 16). This module throughs light on performance management. At the outset, the unit number thirteen deals with conceptual background of performance management and constraints in goal attainment. The unit fourteen deals with the performance management cycle, models of performance management. The unit fifteen deals with performance appraisal of expatriates and the third and host country nationals. The sixteenth unit focuses on the issues and challenges in international performance management, country specific performance management practices, wherein, performance management practice of US, Japan, Russia, and Asian countries are focused.

**Module – V** consists of four units (17 to 20). This module deals with training and development in the international context. The unit seventeen deals with context backdrop of international training, then it extends to the current scenario in international training and development. The eighteenth unit deals with expatriate training, repatriate training, development of international staff and multinational teams. The nineteenth unit focuses on forms of comepnasation and factors that influence compensation policy. The twentieth unit dals with the approaches to international compensation, compensation practices across the countries, social security system across the countries, global compensations emerging issues.

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Mukthagangothri, Mysore 570006

# **MODULE - I**

## **INTRODUCTION TO IHRM**

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### **UNIT – 1: AN OVER VIEW OF IHRM**

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#### **Structure :**

- 1.0 Objectives
- 1.1 International Human Resource Management
- 1.2 Reasons for Firms Going International
- 1.3 Definition
- 1.4 Singificance of IHRM in International Business
- 1.5 Model of IHRM
- 1.6 Advantages and Disadvantages from Various Types of Employees in an International Firm
- 1.7 Approaches to IHRM
- 1.8 Differences between Domestic HRM and IHRM
- 1.9 Reasons for the Emergence of IHRM
- 1.10 Summary
- 1.11 Notes
- 1.12 Key Words
- 1.13 Self Assessment Questions
- 1.14 References

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## **1.0 OBJECTIVES**

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After study this unit, you should be able to;

- define and explain the concept of International Human Resource Management (IHRM)
- outline the evolution IHRM
- analyse the impact of internationalisation on the activities and policies of HRM
- describe the variables that moderate differences between domestic and international HRM

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## **1.1 INTERNATIONAL HUMAN RESOURCE MANAGEMENT**

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The origin of IHRM can be traced back to the growth of international business operations and the development of multinational enterprises (MNEs) with their formal and informal approaches to staffing, personnel administration and personnel management. The era of liberalisation and globalisation along with the developments in IT has brought a lot of transformations in the business world around us. This led to the importance of management of human resources more than ever before. The purpose of IHRM is to enable appropriate deployment of human resource so that the quality culture can maintain and satisfy the customers not only in the nation but also at the global level.

Business environment has become global business environment. The emergence of trade blocks with the formation of different economic and political forums like European Union, North American Free Trade Association, Asia Pacific economic Conference and expanding role of WTO have significantly changed the business environment in terms of competition and marketing opportunity. In this competitive scenario, effective utilisation of HR has become necessary and the primary task of an organisation to improve productivity and functional efficiency.

The internationalisation of business activities influences HR practices greatly. Multi domestic operations (MDOs), Joint Ventures (JVs) and strategic Alliance (SA) are common forms of business structures across regions. Changes in organizational structures, relationships with overseas operations, state – of – the art communications technology and global market now demand different HR approaches for managing MNCs. Globalization of business has probably touched the HR managers more severely than any other functional heads. The HR executives needs to give international orientation to whatever he or she does – employee hiring, training and development, performance review,

remuneration, motivation, welfare, or industrial relations. International orientation assumes greater relevance as business get increasing interlinked across nations.

Since an international business must procure, motivate, retain, and effectively utilize services of people both at the corporate office and at the foreign plants, therefore, the process of procuring, allocating and effectively utilizing human resources in an international business is called International Human Resource Management.

International Human resource management is the process of procuring, allocating and effectively utilizing the human resources in a multinational corporation. While HR Managers in these organization have to integrate HR policies and practices across a number of subsidiaries spread in several countries so that the organization goals can be achieve at the same time they have to make these policies and practices sufficiently flexible to allow significant differences in these policies in different countries. International HRM deals with identifying and understanding how the MNC's manage their geographically dispersed worked force in order to leverage their HR resources for obtaining local as well as global competitive advantage.

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## 1.2 REASONS FOR FIRMS GOING INTERNATIONAL

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The most important reasons for going international are described as follows.

- **To take Profit advantage:** An important advantage of international business is profit. International business can be more profitable than domestic.
- **Availability of cheap labour:** This is an important reason for internationalization of firms. Country like China could attract many because of the availability of cheap labour force. Moreover the available labour force is also proved to be very efficient. These are the factors have influenced the made multinational companies like Philips to setup their factories and R&D units china.
- **Growth Opportunities:** Another significant reason for the forms to setup their businesses in the other countries is ample opportunities found in those countries An important reason for going international is to take advantage of the opportunities in other countries. Thus to exploit these opportunities many companies have setup their companies in those countries.
- **Constraints in domestic market:** Many companies have expanded their businesses beyond their national borders due to the strict rules and regulations imposed by their home countries. These local constraints have driven off these companies to

start their businesses to tap the global markets. Most of the companies have turned towards India after the announcement of new economic policy.

- **Competition:** Competition is yet another driving force behind internationalization. Before the announcement of the new economic policy of India the market conditions were completely different. Because the gates were not opened for foreign investment and the Indian Market was highly protected against foreign investments and companies. Due to liberalization gates were thrown open to foreign companies. From then onwards foreign multinational companies started to establish their offices in India. This led to a tough competition for Indian companies from companies abroad. For example Nirma is a famous domestic detergent company. Because of liberalization the company started facing a tough global competition from MNCs such as P & G, Colgate Palmolive, Unilever, Henkal etc. Thus many firms in their own home market face the technological, financial, organisational and marketing problems from the multi-nationals. As a counter-competition strategy Indian companies also adopted strategy of going global.
- **Government policies and regulations:** Attractive government policies and regulations may also motivate firms to go international. The incentives offered by the respective governments also motivate the firms to spread their firms in such countries. Thus provides a positive support to domestic companies to export and to invest in foreign countries. The best example for this is Birla group of companies in India. The government of India did not give permission to start a fibre plant in India. This made Birla group of companies to start fibre plant in Thailand. They started to process fibre in their Thailand plant and started exporting the same to India from Thailand.
- **Monopoly power:** The big companies like IBM may totally enjoy Monopoly power in their field. This makes them to spread their firms and setup the offices across the countries in the world.
- **Incidental benefits of international business:** A company that goes global may get a spin off too. The company brand image enhances if it has presence in various countries thus helping to improve its domestic business since it operates its business in multinational scale. The consumers may prefer to buy products from a company which exports its majority of its products to foreign countries and this factor adds to the good will of the company.
- **Strategic vision:** Some companies may keep globalization of its products as part of their business policy or strategic management.

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### 1.3 DEFINITION

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IHRM is defined as performing HRM and its related activities and arranging for related and necessary cultural and immigration facilities for prospective and current employees, by organisations operating in domestic and/or foreign countries (Subba Rao, 2007)

P. Morgan defines IHRM as the interplay among human resource activities (viz., procure, allocate and utilize) types of employees (viz., host country nationals, parent country national and third country national) and countries (viz., host country, home country and others). This definition explains about the procurement, motivation, retention and effective utilisation of services of employees both at the corporate office and at the foreign plants.

IHRM can be simply interpreted as managing human resources in the context of international settings. It is the management of HR in firms having business operations at least in two nations.

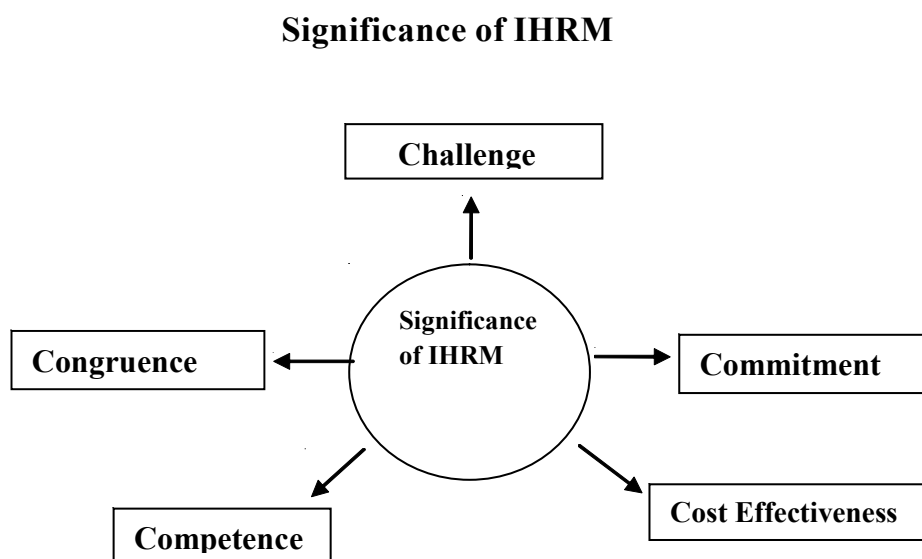
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### 1.4 SIGNIFICANCE OF IHRM IN INTERNATIONAL BUSINESS

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Scullion (2001) outlined 10 major significance of IHRM in globally business environment. This significance can be categorized into 5 key areas:

**Figure: 1**



**Challenge:**

- ◆ Rapid growth of internalization and global competition has increased the nos. and significances of MNCs – resulting in the increased mobility of human resources.
- ◆ Increasing no. of strategic alliances and cross border mergers and acquisitions has increased the strategic implementation of IHRM as Global business.

**Commitment:**

- ◆ Worldwide recognition of management of human resources in international business and cross cultural management.
- ◆ Business Networks and Horizontal communication and HR play a vital role.

**Cost Effectiveness:**

- ◆ The performance of expatriates. (poor performance of expatriate may affect the market share and damage to foreign relations)
- ◆ Growing importance of expatriates in international Business.

**Competence:**

- ◆ Global Strategy Implementation.
- ◆ Success or failure of international business based on effectiveness of management of HR.

**Congruence:**

- ◆ Learning, knowledge acquisitions have been identified as important potential sources of comp. advantages for MNCs. This has also enhanced the role of IHRM to meet the key strategic challenge of objectives.
- ◆ Knowledge management is an important source of competitive advantage for MNCs, where IHRM is the key partner and plays a central role.

---

**1.5 MODEL OF IHRM**

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**IHRM consists of the following aspects:**

1. The **three** broad human resource activities like
  - a) Procurement
  - b) Allocation
  - c) Utilisation of work force

2. The **three** national categories involved in international HRM activities:

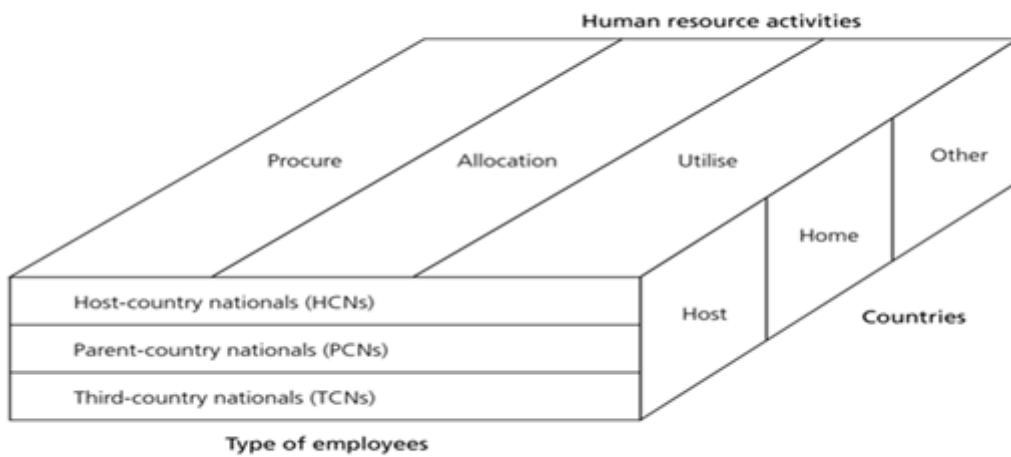
- a) The host country where the subsidiary is located,
- b) The home country where the firm is headquartered and
- c) Other countries that may be the source of labour or finance.

3. The **three** types of employees of an international firm:

- a) Parent Country Nationals (PCNs),
- b) Host country Nationals (HCNs),
- c) Third Country Nationals (TCNs).

**Figure: 1.2**

**MODEL OF IHRM**



Source: Adapted from P.V. Morgan, 'International human resource management: Fact or fiction?', *Personnel Administrator*, 31(9), 1986, p.44.

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## **1.6 ADVANTAGES AND DISADVANTAGES FROM VARIOUS TYPES OF EMPLOYEES IN AN INTERNATIONAL FIRM**

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The employees working for an international firm can be classified into three types. The advantages and disadvantages from hiring these types of employees are as follows:

◆ **Parent Country Nationals (PCNs):**

These employees are of the same nationality as the location of company headquarters. They are generally preferred for top positions or as experts in the division of company. The advantages and disadvantages of this approach are as follows:



**Exhibit: 1.1**

**Advantages and Disadvantages of PCN's**

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> <li>➤ Familiarity with the goals, objectives, policies, systems, procedures and practices of the headquarters.</li> <li>➤ Effective liaison and communication with home-office personnel</li> <li>➤ Easier exercise of control over the subsidiary's operational</li> <li>➤ Less disturbances in employees personal life.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Difficulties in adapting to the foreign language, culture and environmental issues like socio-economic, political and legal environment.</li> <li>➤ Excessive cost of maintaining expatriate managers and their families abroad</li> <li>➤ The host countries' nationals lose jobs</li> <li>➤ Family adjustment problems and thereby failure of PCNs</li> </ul>

- ◆ **Host Country Nationals (HCNs):** These employees possess the same nationality as the location of the subsidiary. The major advantages and disadvantages of this approach are as follows:

**Exhibit : 1.2**

**Advantages and Disadvantages of HCN's**

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> <li>• Familiarity with the culture and environmental factors like socio-economic, political and legal environment and with business practices in the host country</li> <li>• Lower cost of staff</li> <li>• Responds effectively to the host country's demands for localisation of the subsidiary's operations</li> </ul>	<ul style="list-style-type: none"> <li>• Communication difficulties in dealing with headquarters</li> <li>• Difficulties in exercising effective control over subsidiary's operations</li> <li>• Lack of opportunities for gaining international and cross-cultural experience</li> </ul>

**Third-Country National (TCNs):**

These are the employees of an MNC/TNC or their subsidiaries/branches and are the citizens of those countries other than the MNC/TNCs home country and host country.

**Exhibit: 1.3**

**ADVANTAGES AND DISADVANTAGES OF HCNs**

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"><li>• Compromise between PCNs and HCN</li><li>• TCN are usually career international business managers</li><li>• They are less expensive to maintain</li><li>• They may be better informed about the host environment than PCN</li></ul>	<ul style="list-style-type: none"><li>• Host countries' sensitivity with respect to nationals of specific countries</li><li>• Local nationals are impeded in their efforts to upgrade their own ranks and assume responsible positions in the multinational subsidiaries.</li></ul>

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## **1.7 APPROACHES TO IHRM**

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There are three approaches to understand and manage human resources at the global context. They are:

- Cross-cultural management approach
- Comparative HRM
- HRM in multinational enterprises (MNEs)

◆ **Cross-cultural Management:**

One approach stresses on cross-cultural management. It examines human behaviour within organizations from an international perspective. Culture which varies from country to country at least on a few dimensions like family, work ethics, business practices etc. It makes all the difference.

An awareness of cultural differences is therefore an essential part of an international HR manager's brief. The normal HRM activities such as recruitment and selection, training and development, reward and performance appraisal, may all be affected by cultural values and practices in the respective host countries. As a result, great care must be taken when deciding whether or not to adopt standardised HRM policies and practices throughout the world.

◆ **Comparative IHRM:**

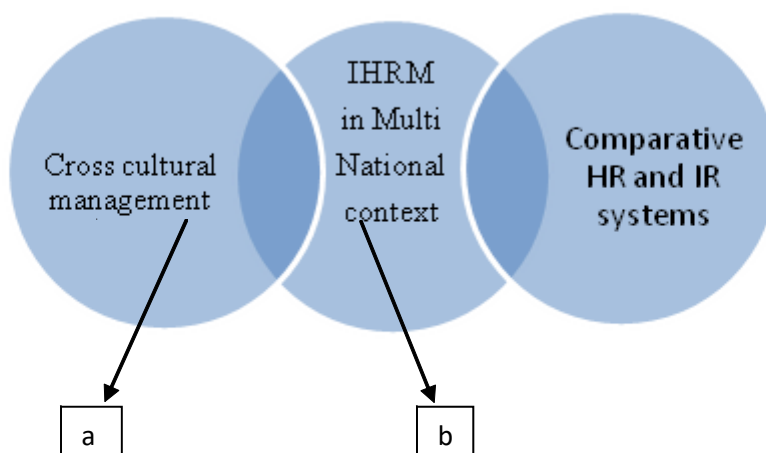
The second approach of IHRM is through comparative HRM. This was developed from comparative industrial relations describes, compares and analyses HRM systems in various countries. It is a study of countries, their work patterns and managerial practices. Different countries have different national cultures that have different HRM implications. One of the challenges that faces organizations as they globalize their operations is the adaptation of their HR practices to the new set of cultures in which the organization is operating and the creation of a manner of operation that is both comfortable to the organization, and appropriate for those cultures. This market challenge is true for firms all over the globe. As organizations become more global and begin to do business in greater numbers of areas, the number and variety of cultures represented in their workforce also changes. As this number increases and as organizations attempt to treat each different culture with respect, practical issues can arise that may make doing business increasingly more difficult. For example, which religious and secular holidays need to be honored based on the cultures represented in the workforce? Similarly, questions may arise regarding what the official language of the workplace will be and whether the speaking of other languages to co-workers will be accepted. Of course, many other aspects of individual motives vary also such as legal, political labor market, and economic conditions and these are critical for comparative HRM.

◆ **Management of Multinational Firms:**

The third approach focuses on aspects of HRM in multinational firms. In this the focus is on the management of multinational firms having operations in different countries and finding universal principles that apply to the operations of the multinationals across the world.

**FIGURE: 1.3**

**INTER-RELATIONSHIPS BETWEEN APPROACHES TO THE FIELD**



The above Figure:3 clearly depicts that there is an inevitable overlap between the three approaches when one is attempting to provide an accurate view of the global realities of operating in the international business environment. Obviously, cross-cultural management issues are important when dealing with the cultural aspects of foreign operations.

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## **1.8 DIFFERENCES BETWEEN DOMESTIC HRM AND IHRM**

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There are two major factors therefore which differentiate domestic HRM from IHRM. First, the complexities of operating in different countries (and therefore in different cultures) and secondly, employing different national categories of workers. This suggests that international HRM is concerned with identifying and understanding how MNCs manage their geographically dispersed workforces in order to leverage their HR resources for both local and global competitive advantage. Globalization has brought new challenges and increased complexity such as the challenge of managing newer forms of network organization. In recognition of such developments, new requirements of IHRM is to play a key role in achieving a balance between the need for control and coordination of foreign subsidiaries, and the need to adapt to local environments. International HRM differs from domestic HRM in a number of ways. One difference is that IHRM has to manage the complexities of operating in, and employing people from, different countries and cultures. A major reason for the failure of an international venture is the lack of understanding of the differences between managing employees in the domestic environment and in a foreign one. A management style successful in the domestic environment often fails if applied to a foreign environment without the appropriate modifications. The various aspects that differentiate IHRM with Domestic HRM are described below.

**Exhibit: 1.4**

**DOMESTIC HRM Vs IHRM**

S.No.	IHRM	HRM
1.	Complex	simple
2.	Deals with broader aspects. These include international taxation, coordinating foreign currencies and exchange rates, international relocation, international orientation for the employee posted abroad, etc.	Deals with domestic country HR
3.	Considers global laws Ex: international taxation, host government regulations	Considers prevailing laws prevailing in the country where company head quarters is situated
4.	More involvement in employees' personal lives Ex: HR takes care of expatriates' children left behind boarding schools in the home country	Standard policies for all the employees
5.	Global influences affect or influence the company policies	Not very much affected by global changes
6.	Workforce has diverse culture background	Usually home country cultured workforce
7.	Complexity involved in handling different categories of employees	Relatively easy handling of employees
8.	Attitude of senior management tends to change as it deals with different culture employees	Attitudes tend to be the same
9.	Involvement of different cultures affect organisational culture	Adoption of culture remains same
10.	Includes all functions of HR but techniques and methods used to carry out them are different	Involves a standard technique in carrying out all HR activities
11.	There is heightened exposure to risks in international assignments. These risks include the health and safety of the	Comparitively lesser risk is involved

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## 1.9 REASONS FOR THE EMERGENCE OF IHRM

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**The main reasons for the emergence and growth of IHRM are as follows:**

1. Internationalisation and global competition have increased the number and significance of MNCs which resulted in the mobility of human resources internationally
2. Effective HRM has been the major determinant in the success and failure of international business
3. Under performance of expatriates is often costly both in human and financial terms.
4. Shortage of international managers is a significant problem for international companies
5. Implementation of global strategies has become a key constraint due to the absence of international management of talent which constrains the expansion of company
6. Rapid growth of market at the global level requires managers with distinctive competencies to manage workforce in culturally and economically distant countries
7. Due to the emergence of micromultinationals IHRM issues are making significant impact in management
8. The shift of HRM from traditional hierarchial structures to network type MNCs has been facilitated by the network of personal relationships and horizontal communication channels.
9. There is also growing evidence that HR strategy plays a more significant role in implementation and control in the international companies
10. The rapidly increasing number of strategic alliances, cross-border mergers and acquisitions has further increased the need for the internationalisation of HRM
11. HRM plays a significant role in organisational learning and in MNCs there is a need for the combination of subsidiary knowledge and global knowledge
12. Diverse multicultural workforce needs to be managed effectively so that harmonious workplace relations can be maintained.
13. The problem of how to internationalise HRM has itself been the major reason for the emergence of IHRM







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## **1.12 KEY WORDS**

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1. International Business
2. Parent Country National
3. Home Country National
4. Third Country National
5. Internationalization
6. International HRM
7. Cross cultures
8. Transnational company
9. Multi-national company
10. Cross-cultural management

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## **1.13 SELF ASSESSMENT QUESTIONS**

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1. Define IHRM. .Discuss the model of IHRM
2. Explain the various approaches to IHRM
3. Why the firms go global?
4. Explain the Differences between Domestic HRM and IHRM.
5. Discuss the reasons for emergence of IHRM.

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## **1.14 REFERENCES**

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## **UNIT-2 : INTERNATIONALISATION OF HRM**

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### **Structure :**

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Internationalisation of HRM
- 2.3 Socio-Cultural Context of IHRM
- 2.4 Hofstede's Model of Culture
- 2.5 Role of Social and Cultural Factors in IHRM
- 2.6 Summary
- 2.7 Notes
- 2.8 Key Words
- 2.9 Self Assessment Questions
- 2.10 References

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## **2.0 OBJECTIVES**

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After studying this unit, you should be able to;

- define the process of internalisation of HRM
- explore the socio-cultural context of IHRM
- explain about the role of culture in IHRM

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## **2.1 INTRODUCTION**

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In the dynamic international business, markets are no longer protected from foreign competition. Due to globalisation, there exists competition for both domestic and foreign firms. Majority of workforce in multinational companies are from foreign countries. For instance, Ford Motor company which is a big MNC, more than half of the employees are from outside the United States. A Swedish company Ericsson has majority of workforce is from other parts of the world.

Issues of managing business are getting very tough due to highly diverse workforce in the organisation. The extreme competition in domestic and foreign markets is making organisations struggle to retain the human resources. Moreover, procuring and developing the suitable and capable human resources has always been in the list of priorities of top managements. Possessing quality human resource is a must for implementation of global competitive strategies. Domestic organisations expanding into international business are certainly under pressure to manage their human resources. Having right people in the right place at the right time is the key to a company's international growth. Hence, there is a need for the organisations to internationalise their HR practices so that diverse workforce can be effectively managed.

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## **2.2 INTERNATIONALISATION OF HRM**

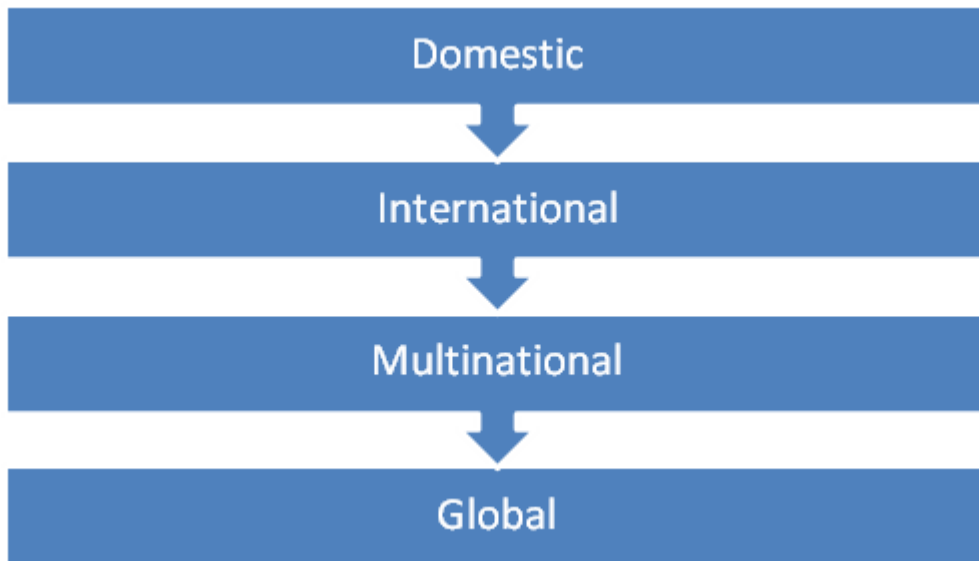
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Adler and Gadhar (1990) identified four phases of internationalisation of organisations that tried to expand globally. These phases are domestic, international, multinational, and global. This classification is based on the influences of national and global culture on corporate culture. Most companies pass through different stages of international business. A firm which is entirely domestic in its activities normally passes through different stages of internationalisation before it becomes truly global. There are many companies which enthusiastically and systematically go international as part of their corporate plan. A firm may initiate exports on an experimental basis, and if the results are satisfying, it would enlarge internationally. In due course, it would establish

offices, branches or subsidiaries or joint ventures abroad. The expansionary (expanding) process may also be characterized by increasing the product mix and the number of market segments, markets & countries of operation. In the process, the company could be expected to become multinational or finally global.

**Figure:2.1**

### **STAGES OF INTERNATIONALISATION**



In short, in many firms overseas business initially starts with low degree of commitment or involvement; but they gradually develop a global outlook and embark upon overseas business in a big way. The following are the stages through which a company passes:

- Domestic Company
- International Company
- Multinational Company
- Global or Transnational Company

◆ **Domestic Company:**

A purely domestic company operates its business domestically because it never considers the alternative of going international. When it reaches growth limits in its primary market, diversifies (expand/branch out/spread) into new markets, products & technologies instead of focusing on penetrating international markets. However, if factors like domestic market constraints, foreign market prospects, increasing

competition etc, make the company reorient its strategies to top foreign market potential, it would be moving to the next stage in the evolution. A domestic company may extend (expand, enlarge increase) by exporting, licensing and franchising. The company may develop a more serious attribute towards foreign business and move to the next stage of development i.e., international company.

◆ **International Company:**

An international company is normally the second stage in the development of a company towards the transnational corporation. The marketing mix developed for the home market is extended into foreign markets.

◆ **Multinational Company:**

When a company decides to respond to market differences, it evolves into a stage-three multinational that pursues a multi-domestic strategy. The focus of the stage-three company is multinational, or in strategic terms, multi-domestic (i.e. the company formulates a unique strategy for each country in which it conducts business). In multinational companies, “each foreign subsidiary is managed as if it were an independent city state. The subsidiaries are part of an area structure in which each country is part of a regional organization that reports to world headquarters.

◆ **Global/Transnational Company:**

According to Keegan, a global company represents stage-four and a transnational company stage-five, in the evolution of companies. However, several people use these terms as synonyms and by global corporation they refer to the final stage in development of the corporation. According to Keegan, “The global company will have either a global marketing strategy or a global sourcing strategy but not both. It will either focus on a global markets and source from the home or a single country to supply these markets, or it will focus on the domestic market & source from the world to supply its domestic channels. However, all strategies i.e product development, production (including sourcing), marketing, etc, will be global with respect to the global corporation.

The international company is much more than a company with sales, investments and operations in many countries. This company, which is increasingly dominating markets and industries around the world, is an integrated world enterprise that links global resources with global markets at a profit. This is the company that thinks globally and acts locally. It adopts a global strategy allowing it to minimize adaption in countries to that which will actually add value to the country customer.

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## **2.3 SOCIO-CULTURAL CONTEXT OF IHRM**

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Business is as much a socio-cultural phenomenon as it is an economic activity. Per capita income may be the same in two countries but the consumption patterns in these countries may differ. Socio cultural forces have considerable impact on the types of products people consume; colours and symbols they like; emphasis they place on religion, work, entertainment, family and other social relations. Social cultural environment influences all aspects of human behaviour and is pervasive in all facets of business operations.

### **2.3.1 Culture**

Culture can be defined as “a sum total of a man’s knowledge, beliefs, art, morals, laws, customs and any other capabilities and habits acquired by man as a member of society”. It is a distinctive way of life of a group of people, their complete design of living. Culture thus refers to a man’s entire social heritage-a distinctive life style of a society and its total value system which is intricately related to the consumption pattern of the people and management philosophies and practices.

Furthermore, within each culture there are many subcultures that can have business significance or instance, in country like United States distinct subcultures prevail in the South, North-Eastern or Mid-Western parts. Subcultures are found in all national cultures and failure to recognise them may create impressions of sameness which in reality may not exist. A single national and political boundary does not necessarily mean a single cultural entity. Canada, for instance, is divided between its French and English heritages, although politically the country is one. Because of such distinctive cultural division, a successful marketing strategy among the French Canadians might not effectively work among the English /Canadians or vice-versa. Similarly, a single personnel policy may not work with workers employed in two different plants if they belong to different subcultural groups and differ in their work habits and underlying motivations.

#### **2.3.1.1 Elements of Culture**

Some of the important elements to understand a country’s culture are: language, aesthetics, education, religions and superstitions, attitudes and values, material culture, social groups and organisations and business customs and practices.

##### **◆ Language**

It is an important element of culture and it is through language that most of the communication takes place. An international HR manager should have a thorough

understanding of the language of the employee's nation, particularly the semantic differences and idiomatic nuances which are essential characteristics of all languages of the world. When American car called 'Nova' was introduced in Puerto Rico, sales were poor until the company realised that the word Nova was literally meant as 'does not go', sales improved when the name changed to as 'Garble'

◆ **Aesthetics:**

Aesthetics pertain to a culture's sense of beauty and good taste, and is expressed in arts, drama, music, folklore, dance and the like. Aesthetics are of special interest to the international business executives for these govern the norms of beauty in a society and these govern the norms of beauty in a society and are helpful in correctly interpreting meanings of various methods of artistic expressions, colours, shapes, forms and symbols in a particular culture. Sensitivity to aesthetics of a society and their symbolic expressions can greatly help in avoiding serially embarrassing situations and correctly designing the products and messages.

◆ **Education:**

Education is generally understood as formal schooling. But it is better to adopt a broader perspective and define education as any process, formal or informal through which one acquires skills, ideas, values and attitudes. Education is important as it affects not only the education levels but also the development of mental faculties and various skills. Availability of skilled labour, technicians and professional is also dependent on the country's education level.

◆ **Religion and Superstitions:**

Religion is a major determinant of moral and ethical values and influence people's attitudes, habits and outlook on life which are reflected in their attitudes and work patterns. A working knowledge of religions prevalent in the organisations helps in understanding people's work habits, underlying motivations and consumption behaviours.

◆ **Attitudes and Values:**

Besides religions and superstitions, one must be cognation of attitudes, values, and beliefs prevalent in society. These attitudes and values may be related to employees' expectations on compensation or benefits or facilities given away by the organisation.

Americans in general are more receptive to change and risk taking, but people in many societies are averse to change and risk taking. They prefer doing what is traditional and safe.

◆ **Technology:**

Technology includes the ways and means applied in making of material goods. It is technical know-how in possession of the people of a society. Choice of technology has its repercussions on the size of investment, scale of operations as well as type and extent of factors of production to be employed. Technology transfer has been a highly controversial issue while many developing countries have laid down stringent rules and regulations concerning technology imports and payments, developed countries as well as MNCs have their own policy regarding the nature of technology to be transferred and the conditions governing the transfer. Business implications of material culture of a society are obviously many.

◆ **Social groups and Organisations:**

A study of social groups and organisations is important as it determines how people relate to one another and organise their activities. The size and cohesiveness of the family, role of men and women in society, and positions of different social classes differ from country to country. Social groups and organisations mould the pattern of living and interpersonal relationships of people in a society. They influence the behavioural norms, codes of social conduct, value systems etc that may be of relevance to the international business managers in their making.

◆ **Business customs and Practices:**

A familiarity with business customs and practices prevalent in different countries is a must to avoid mis-management of people in the organisations. An international business manager must have necessary knowledge about how business is conducted and what importance business people in a foreign country attach to work, time, formality, change and achievement. American managers, for instance, are by nature, highly work oriented and attach utmost importance to speed and punctuality in business dealings. They are moreover, highly achievement oriented and fond of new things. But people in other parts of the world do not share these values and beliefs. Japanese, for instance, are also workhouses but they are very slow in decision making.

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## **2.4 HOFSTEDE'S MODEL OF CULTURE**

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Geert Hofstede conducted research on managers in 72 countries regarding the cultural differences related to management style and developed a model called four dimensions of corporate culture. According to him, culture is the aggregate of values, beliefs, customs and rituals. The model developed on this notion has four dimensions namely - power distance, uncertainty avoidance, individualism, and masculinity.

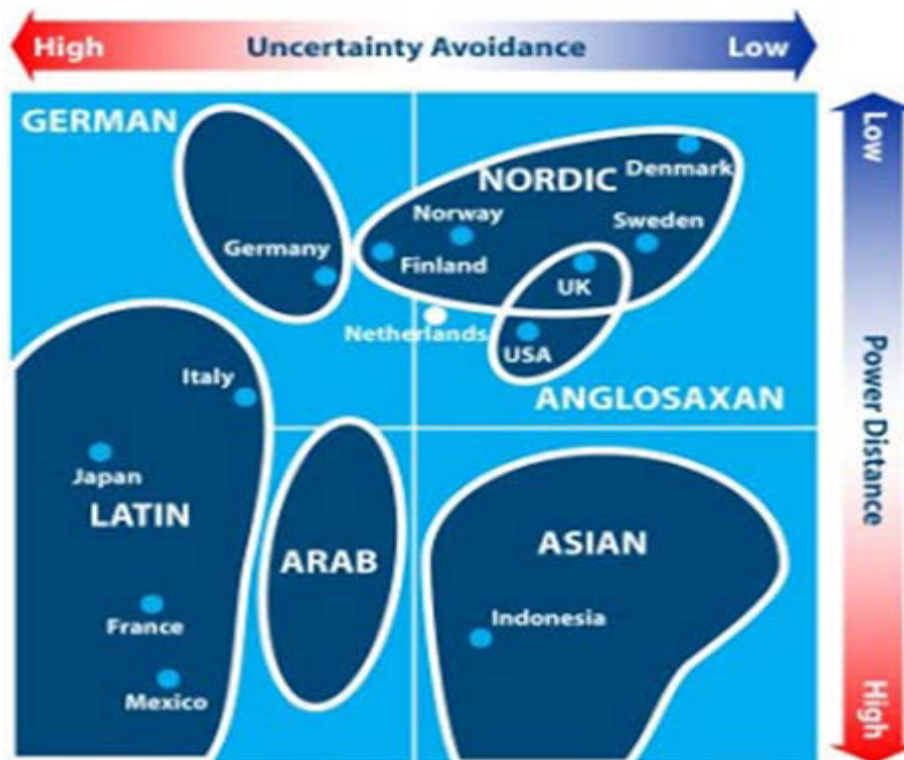


◆ **Power Distance:**

Power distance indicates the relationship between superior and subordinates. As the culture shapes the individuality of the employees, it is certainly relevant to know the employees socio-cultural background. If the people are more individualistic power distance will be more. Such people seek less consultation with superiors and subordinates. In such context, organisations need to practice autocratic or paternalistic styles of management/leadership. If the power distance is less then individuals are more team spirited and hence democratic or participative management styles would be appropriate.

**Figure: 2.2**

**Hofstede model**



Hofstede’s study indicates that power distance is very low in Israel, followed by Denmark, Sweden, Germany and Australia. It is the highest in Mexico, Indonesia, India and Brazil.

◆ **Uncertainty Avoidance:**

Employees in countries with highest scores of uncertainty avoidance prefer a formatted, systematic, methodical work which has rigid rules to be followed. It means that such employees try to avoid uncertainty, take very less or no risk and are highly

dependent on rules. They seek someone to guide and lead them and are less interested in taking free hand decisions. Organisations in such context cannot expect employees to be challenging individuals or go-getters. They can just expected as those who could completed assigned work in a stipulated time as per the instructions or the standards set by the organisation. Uncertainty avoidance is highest in Japan and lowest in UK and India.

The critical components of the uncertainty-avoidance dimension can be depicted in the table: 1.

**TABLE: 2.1**  
**CRITICAL COMPONENTS OF UNCERTAINTY AVOIDANCE**

<b>Low-Uncertainty Avoidance Societies</b>	<b>High-Uncertainty Avoidance Societies</b>
<ul style="list-style-type: none"> <li>• Willingness to live day-by-day</li> <li>• Less emotional resistance to change</li> <li>• More risk taking</li> <li>• Willingness to change employer</li> <li>• Hope for success</li> <li>• Little loyalty to employer</li> <li>• Sometimes rules can be broken</li> <li>• Conflict is natural and to be expected</li> <li>• Initiative of subordinates encouraged</li> <li>• Differences are tolerated</li> <li>• Low stress</li> <li>• Little emotional expression</li> <li>• Superiors may say "I don't know"</li> <li>• Less formal organizational structures</li> </ul>	<ul style="list-style-type: none"> <li>• Greater anxiety about the future</li> <li>• More emotional resistance to change</li> <li>• Less risk taking</li> <li>• Tendency to stay with same employer</li> <li>• Fear of failure</li> <li>• Considerable loyalty to employer</li> <li>• Rules should not be broken</li> <li>• Conflict is undesirable</li> <li>• Initiative of subordinates discouraged</li> <li>• Differences are considered dangerous</li> <li>• High stress Emotional expression is acceptable</li> <li>• Superiors have all the answers</li> <li>• Formal organizational structures</li> </ul>

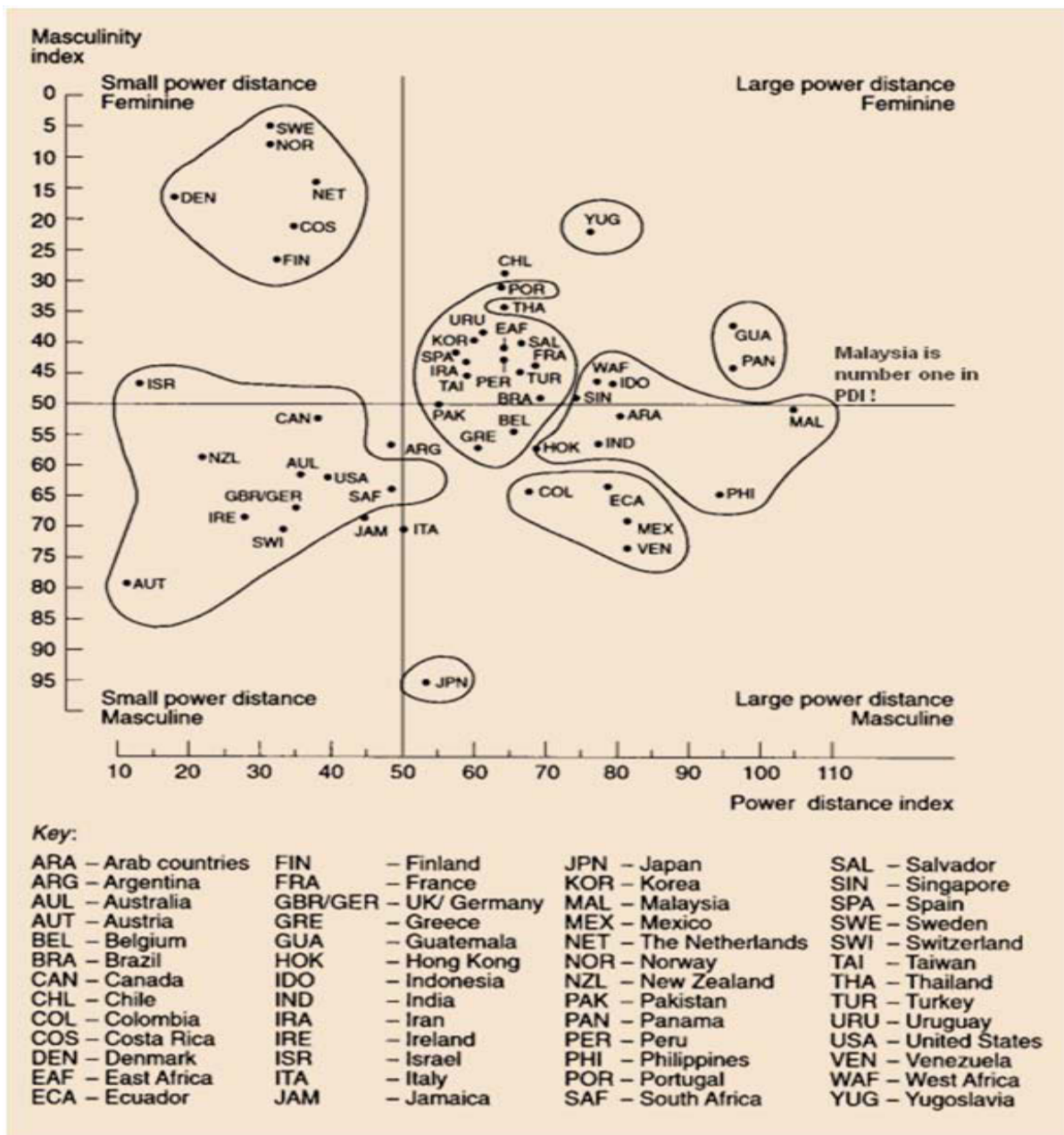
*Source: "The cultural dimension of international business" Gary p. Ferraro, Prentice Hall IV edition, 2012*

◆ **Masculinity:**

According to Hofstede, Masculinity means the degree to which dominant values of a society are success, money and material things. Hofstede's study indicated that Japan enjoys highest masculinity and Denmark, Sweden have least order of masculinity, whereas, India has a moderate masculinity. This means if employees are with highest degree of masculinity, they prefer to be highly competitive and are also more entrepreneurial.

**Figure: 2.3**

**Hofstede model – Masculinity Index**



◆ **Individualism:**

Individualism and collectivism are the consequences of the culture and affect the formation of groups, productivity and marketing practices. For example western culture promotes more of individualism and so employees of U.S are more individualistic and prefer to work individually. In eastern countries like India, Japan, collectivism is promoted and people prefer to work more as teams.

**Table: 2.2**

**Individualism Vs. Collectivism**

Individual Oriented Societies	Collective Oriented Societies
<ul style="list-style-type: none"> <li>• Individuals are major units of social perception</li> <li>• Explain others' behaviour by personal traits</li> <li>• Success attributed to own ability</li> <li>• Self defined as individual entity</li> <li>• Know more about self than others</li> <li>• Achievement for one's own sake</li> <li>• Personal goals over group goals</li> <li>• Values self-assuredness</li> <li>• Values autonomy and independence</li> <li>• Fears dependence on others</li> <li>• Casual connections to many groups</li> <li>• Few obligations to others</li> <li>• Confrontation is acceptable</li> <li>• Task completion is important</li> </ul>	<ul style="list-style-type: none"> <li>• Groups are major units of social perception</li> <li>• Explain others' behaviour by group norms</li> <li>• Success attributed to help of group</li> <li>• Self defined in terms of group</li> <li>• Know more about others than self</li> <li>• Achievement for benefit of group</li> <li>• In-group goal over personal goals</li> <li>• Values modesty</li> <li>• Values interdependence</li> <li>• Fears ostracism</li> <li>• Strong connections to a few groups</li> <li>• Many obligations to others</li> <li>• Harmony is expected Relations are important</li> </ul>

*Source: "The cultural dimension of international business" Gary p. Ferraro, Prentice Hall IV edition, 2012*

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## **2.5 ROLE OF SOCIAL AND CULTURAL FACTORS IN IHRM**

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Social and cultural factors in various countries of the globe affect the international human resource management. These factors include attitude of the people to work, attitude to wealth, family, marriage, religion, education, ethics, human relations, social responsibilities etc. Culture is derived mostly from the climatic conditions of the geographical region and economic conditions of the country. It is a set of traditional beliefs and values which are transmitted and shared in a given society. It speaks about the norms, customs, art, values of a region.

Culture is mostly determined by the economic level and conditions and climate of a region or a country. Since economic level and conditions and climate differ from region to region and country to country. For example, people of deserts emphasized on goat milk, dry grains and dehydrated meat. They avoid some foods like pork. This culture is institutionalized and Islamic law prohibits the Muslims from eating pork. Hence different religions suggest different types of food to be consumed or avoided.

Social environment comprises religious aspects, customs, traditions, beliefs, social institutes, habits, language etc. It influences the level of consumption of a product. The economic position of a country helps in deciding on the type of product or market. Religion is a major factor that influences HR practices of an organisation. It determines or shapes an individual's behaviour or perception in one's life. It plays a significant role in deciding normal and ethical standards in production and marketing of goods and services.

IHRM has to take care to avoid misunderstandings by understanding cultural differences as one has to be sensitive to the culture of the host country. Culture sensitivity becomes the main element in IHRM. It is to have the empathy to accept cultural differences without allowing one's own values to surface in unproductive or confrontational ways. Therefore, individuals have to understand cultural differences and follow them rather than be only judgmental of the culture of the land.

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## **2.6 SUMMARY**

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In the era of globalisation markets of business organisations have to face tough competition from the foreign markets and there exists competition for both domestic and foreign firms. Firms adopt a global strategy allowing them to minimize adaption in countries to that which will actually add value to the country customer. Social and cultural factors in various countries of the globe affect the international human resource management. Hence IHRM avoids the confusions related to the culture.



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## **2.8 KEY WORDS**

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1. Internationalisation
2. Aesthetics
3. Power Distance
4. Individualism
5. Collectivism
6. Uncertainty Avoidance
7. Domestic company
8. International company
9. Multinational company
10. Global company

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## **2.9 SELF ASSESSMENT QUESTIONS**

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1. Discuss the role of HRM in the process of Internationalisation
2. Explain the elements of culture
3. Discuss the Hofstede of culture
4. Explain the implications of Hofstede model in India
5. Describe the role of socio-cultural factors in IHRM

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## **2.10 REFERENCES**

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## **UNIT-3 : CULTURE AND EMPLOYEE MANAGEMENT ISSUES**

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### **Structure :**

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Role of Culture in Managing Human Resources
- 3.3 Culture and Employee Management Issues
- 3.4 Organisational Processes and IHRM
- 3.5 IHRM and Organizational Structure
- 3.6 Control and Coordination Mechanisms of a Global Company
- 3.7 Role of International HRM in Control and Coordination
- 3.8 Major Functions of International Human Resource Management
- 3.9 Linking HR to International Expansion strategy
- 3.10 Conclusion
- 3.11 Summary
- 3.12 Case Study
- 3.13 Notes
- 3.14 Key Words
- 3.15 Self Assessment Questions
- 3.16 References



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### **3.0 OBJECTIVES**

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After studying this unit, you should be able to;

- identify the relationship between culture and employee management issues
- provide insights into the role of organisational processes in IHRM
- outline the link between the HR and the international expansion strategies

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### **3.1 INTRODUCTION**

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Companies operating only within the borders of a country generally have the luxury of dealing with a relatively limited set of economic, cultural, and legal variables. For example India has a mixed economic structure and Indian workforce reflects a multitude of cultural and ethnic backgrounds, shared values help to shadow potentially sharp cultural differences. Although the different states in the country certainly have their own laws affecting HR, a basic central framework helps to produce a fairly predictable set of legal guidelines regarding matters such as employment discrimination, labor relations, and safety and health. But a company operating multiple units abroad cannot have homogeneity. For example, minimum legally mandated holidays range from none in the United Kingdom to 5 weeks per year in Luxembourg. While Italy has no formal requirements for employee representatives on boards of directors, they are required in Denmark for companies with more than 30 employees. The organisations operating globally or outside the borders need to frame such HR policies and procedures which meet the requirements of respective countries. Thus differences among countries in the ways of managing human resources complicate the functions of HR in multinational companies.

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### **3.2 ROLE OF CULTURE IN MANAGING HUMAN RESOURCES**

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Every country's culture very often is found to be unique. The cultural aspects of the countries widely differ with one another. The culture refers to the basic values that the citizens of a country adhere to, the way that these values manifest themselves in the nation's arts, social programs, politics, and ways of doing things.

These cultural differences across the countries necessitate corresponding differences in management practices among a company's subsidiaries. For example, in a study it has been found that U.S. managers tend to be most concerned about how to get the things done. The Chinese managers are more concerned with maintaining a harmonious environment, whereas Hong Kong managers fell between these two extreme styles.

A classic study by Professor Hofstede found many other international cultural differences. The various cultural differences affecting the management style revealed in this study has been presented in the following table:

**Table: 3.1**

**Mexican Management style Vs US Management style**

Mexican Management style	US Management style
Employees expect their managers to keep them at a distance rather than to be close	Employee expect their managers not to maintain distance
Employees like to be formal	Employees like to be Informal
Formal rules and regulations are not adhered to, unless authorities are present.	Formal rules and regulations are adhered to, even though the authorities are not present.
Individualism is not valued so much	Individualism is valued very much
Employees tend to expect to receive a wider range of services and benefits like medical benefits to their family	They don't expect wider range of services and benefits( benefits for their families)

In Germany, employee should not attend to the duties even a few minutes late and always address senior people formally, with their titles. Such cultural differences will have an effect on the employee who takes up foreign assignment. Hence he/she needs a proper orientation towards the culture in order to avoid the culture shock. Doing otherwise may lead to expatriate failure.

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**3.3 CULTURE AND EMPLOYEE MANAGEMENT ISSUES**

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The growth of international/multinational and transnational business organisations has affected the employee management and positioned new requirements on HR managers. In this global business environment HR managers need to ensure that the appropriate mix of employees in terms of knowledge, skills, and cultural adaptability is available to handle global assignments. Today there is a pressing need to understand and appreciate the human implications of globalization thus resulting to the emergence of international

HRM (IHRM). There are many employee management issues that have to be dealt and addressed by the international HR managers. Operating human resources across geographic and cultural boundaries can often prove difficult for small-business owners and managers. In spite of the widespread use of technology, the ability to communicate with anyone around the world and access to new and varied markets, there is a desperate need for HR managers to grasp international HR issues. The following are few such issues which are to be addressed to operate business in an effective manner in the global business environments.

◆ **Compliance with International Labour Laws:**

This is one of the important and complex issues which require a significant attention. An organisation which goes global needs to have proper understanding towards the local labor laws of such countries. They have to adapt to new labor laws and tax liabilities. Since that these laws tend to be very complex and sometimes found to be difficult to implement, HR managers competencies in these aspects would play a very significant role.

◆ **Cultural Diversity**

Another prominent issue in international HR is having proper understanding and maintaining cultural diversity. For managing people from different locations or from different cultural backgrounds HR managers have to make many changes in their existing management style. These changes must match with prevailing local cultures of the countries where the business is located. If you hire an employee from England, for example, the employee might have different ideas about how to manage employees or on how to run technology processes based on her experiences back home. Being open to new work styles and cultural differences is the hallmark of cultural diversity in HR.

◆ **Workforce diversity**

Workforce diversity implies that various categories of employees not only bring their skills and expertise but also their attitudes, motivation to work or not to work, feelings, and other personal characteristics. There are several opportunities and challenges of Workforce diversity in the organisations. Hence managing such employees may require a contingency approach rather than pre-determined HRM practices. Thus managing these diverse workforce effectively tailor-made HRM practices are needed.

◆ **Language Diversity**

As all of us know communication plays an important role in better employee management. Language is a medium of expression. Global companies hire employees

from different countries with varied languages. International HR manager may have to make multilingual communications. It implies that anything transmitted to employees should appear in more than one language to help the message get through. Another significant issue that intervenes the effective employee management is encouraging employees coming from different countries to learn the language of the host country for better dissemination of the information, it does not become feasible in many cases.

◆ **Economic Diversity**

Economic diversity is yet another aspect which directly influences the compensation management. It refers to the per capita income of those countries where a global company operates. Employee compensation is one of the prime motivator in an organisation especially when an employee takes a foreign assignment. The wage or salary packages and other financial compensation vary country to country. There is a widely accepted principle that never an organisation should do injustice towards payment made to an employee for the work done. Thus it is to be considered as major issue by the global organisations in managing employee because its operations are located in different countries having different economic status. Hence establishing parity in compensating an employee basing on the cost of living of host countries is no doubt a major challenge for a HR manager.

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### **3.4 ORGANISATIONAL PROCESSES AND IHRM**

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Organisational process refers to strategy, structure and the control systems in an organisation. The strategic role of HRM is more complex in an international business. Because the underlying differences in the cultures, social, legal, economical systems complicate HR functions like staffing, management development, performance evaluation, and compensation. It is understood by the global organisations that simply recruiting skilled and talented workforce is not enough but it is important to have such workforce who can fit in to the organisational culture and the adapt to the several changes that may take place in the work-life of them due to the diverse environments in which the organisation operates.

The strategic HRM components and requirements depend on, inter alia, the organisational modes.

**TABLE: 3.2**

**STRATEGY, STRUCTURE AND CONTROL SYSTEMS**

Strategy, structure, control	Multidomestic	International	Global	Transnational
Centralization of operating decisions	Decentralized	Core competency centralized rest decentralized	Some centralized	Mixed centralized and decentralized informal matrix
Horizontal differentiation	Worldwide area structure	Worldwide product structure	Worldwide product division	Informal matrix
Need for coordination	Low	Moderate	High	Very High
Integrated mechanisms	None	Few	Many	Very Many
Performance ambiguity	Low	Moderate	High	Very High
Need for cultural controls	Low	Moderate	High	Very High

*Source: Charles WL. Hill, 2008, "International Business", Tata Mc GrawHill, New Delhi, Pg.608.*

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### **3.5 IHRM AND ORGANIZATIONAL STRUCTURE**

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An international / global company to operate very effectively needs to design a more appropriate organisational structure. The type of international organisational structure adopted by the MNE will provide the context for many of the IHRM issues faced by the company. There are four widely accepted organisational structures such as matrix or mixed structure, the Heterarchy, the transnational, the multinational network. The detailed description of these forms is as follows.

◆ **Matrix or mixed structures:**

It brings together the functional, geographical and products structures and combine them in an attempt to meet the needs of a specific activity or project. Once the activity or project is completed, the 'team' is often disbanded and return to their original position within the divisional or other structures of the global organisations. There exists certain loop holes in this structure such as dual reporting, proliferation of communication

channels, overlapping of responsibilities, barriers of distance, language, time and culture making the global organisations unmanageable.

◆ **The Heterarchy**

To overcome the limitations of matrix or mixed structures a new form of international organisational structure has been proposed by Hedlund which is named as Heterarchy. Organizations forming this kind of structures recognize that a multinational may have a number of different kinds of centers apart from the traditional center referred to as “headquarters”. They need not be necessarily reside in the parent country alone so each subsidiary center maybe simultaneously a center and a global coordinator of discrete activities, thus performing a strategic role not just for itself, but for the MNE as a whole. The success of Heterarchy form of structures depends on the effective HRM practices. HR managers need to formulate, implement, and reinforce the required demands of skilful and experienced personnel as well as sophisticated reward and punishment systems for the effective performance of employees.

◆ **The Transnational**

Another form of organisational structure is the transnational. The significant characteristics of this structure are interdependence of resources and responsibilities across all business units regardless of national boundaries. These structures tries to manage wide flow of products, resources, technology, people and information among its subsidiaries, while simultaneously recognizing the distributed specialized resources and capabilities. These structures demand a complex process of coordination and cooperation involving strong cross-unit coordinating mechanisms, a strong corporate identity, and a well-developed global management perspective.

◆ **The Multinational as a Network**

This is an organisational structure the feature of which is quite contradictory to traditional structure. In these structures a single subsidiary acts as a nodal unit linking a cluster of satellite organizations. This one subsidiary centre takes the responsibility of other units located in that region/country. The complexity involved in the management of this kind of structure is that apart from the intra-organizational network which comprises of headquarters and the numerous subsidiaries, each subsidiary also has a range of external relationships with local suppliers, customers, competitors, host governments, and alliance partners. Thus the management of both the intra-organizational and inter-organizational networks and of the total integrated network is crucial to global corporate performance. These structures are found less hierarchical. The significant

features of these structures are proper delegation of authority to the units and levels; wide geographical dispersal of key functions across units in different countries; de-layered organizational levels; less formal procedures; and differentiation of work, responsibility, and authority across the networked subsidiaries.

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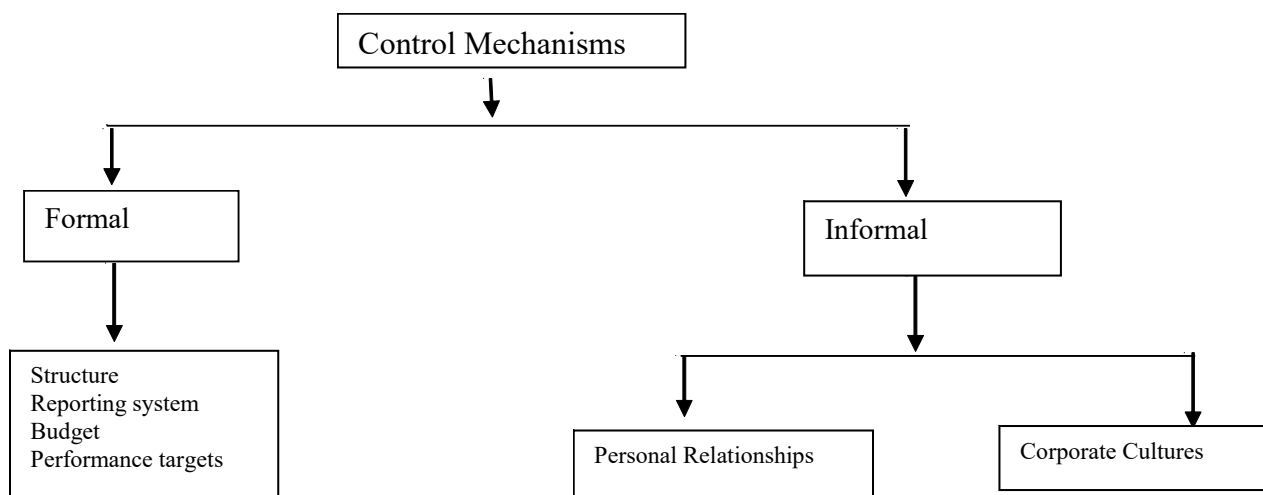
### 3.6 CONTROL AND COORDINATION MECHANISMS OF A GLOBAL COMPANY

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A widely dispersed business organisation across the world needs an effective control and coordination mechanisms. Building coordination and installing effective control systems in these highly networked organisations is one of the major challenges. The challenges may appear very severe in less-hierarchical organisational designs. Here the coordination appears to be a major cause of concern. In fact the firms that classify themselves as global business organisations face common co-ordination issues. The control mechanisms may be classified into Formal and Informal mechanisms. The following figure clearly depicts the control and coordination mechanisms of a global company.

**Figure:3.1**

#### Control Mechanisms



**Source: R.Marchan, D.Welch and Welch, 1996, "Controls in Less Hierarchical multinationals: The Role of Personal networks and Informal communications, International Business Review, Vol.5 No.2**

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### **3.7 ROLE OF INTERNATIONAL HRM IN CONTROL AND COORDINATION**

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The role International HRM is found significant in the process of managing global companies, more so in less-hierarchical structures. The organisational processes of a networked organization need to facilitate contacts and communication. The significant HRM functions that help in developing effective control coordinating mechanisms are as follows:

- ◆ Effective training and development programs, held in a global company provides for an important forum for the developing personal networks thus fostering informal communication channels. This further helps in building strong corporate culture.
- ◆ Staffing also plays a very significant role in building effective control and coordination mechanisms. While staffing for a global company HR manager has to consider communications skills, attitude and personality of a potential candidate. Since the ability to participate in various activities and operations of a company depends on the attitude and communication skills of an employee. 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.
- ◆ Moreover the management processes in a networked multinational rely heavily on the ability to 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.
- ◆ Employees' transfers are also an important part of the required management process particularly that of control. Multinationals continue to rely on the movement of key staff to assist in coordination and control.

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### **3.8 MAJOR FUNCTIONS OF INTERNATIONAL HUMAN RESOURCE MANAGEMENT**

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The functions of International human resource management may be classified in to five. They are recruitment and selection, Training and development, performance evaluation, remuneration and labor relations.

- **Recruitment and selection:**

It is the process of attracting and selecting qualified and talented candidates for international operations. A global company adopts certain approaches like ethnocentric, geocentric poly centric etc.



- **Training & Development:**

It is one of the important functions which play a key role in managing MNE's. Across the world HR must have responsibility for training and development of employees located in various subsidiaries. A specialized training needs to be given to an expatriate for his or her successful completion of a foreign assignment. There is an immense role of HRD department in developing a special group of managers with global mindset.

- **Performance evaluation:**

It is yet another significant function of international human resource management. In Global companies, performance appraisals are usually done annually and use a standardized evaluation form. Performance evaluation is complex task for International HR managers because the organization must evaluate employees from different countries working in different subsidiaries. Performance evaluation depends on the organization's overall human resource management strategy.

- **International compensation management:**

It plays a prime role in the effective performance of a global company. Because pay is the significant motivator behind the performance of an employee. Developing an international compensation system two primary concerns. The first one is dispersing salaries to employees that are internally equivalent and competitive within the marketplace. The second major concern is cost. Global companies have to move with an agenda of reducing all expenses, and payroll is one of the largest.

- **Labor relations:**

It describes the role of management and workers in the workplace. In many countries, the government regulates labor relations practices.

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### **3.9 LINKING HR TO INTERNATIONAL EXPANSION STRATEGY**

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A growth oriented and ambitious company always prefers to seize the opportunities of expanding into an overseas market. There are several reasons for an International expansion. They are revenue growth, improved return on capital, an increased reinvestment rate and greater security through more diversified revenue streams. Moreover, the pace of growth from overseas expansion tends to be quicker than domestically generated growth. The implications of these international expansions will be more on HRM functions. It is to be noted that the success or the failure of any international expansion strategy majorly relies on its HRM functions thus an internationalizing firm has to link its HR activities to the international expansion strategy. The following measures may enhance the effectiveness of international expansion of a firm.

- Firms need to recognize that people are a critical component for the successful implementation and attainment of the expansion strategies.

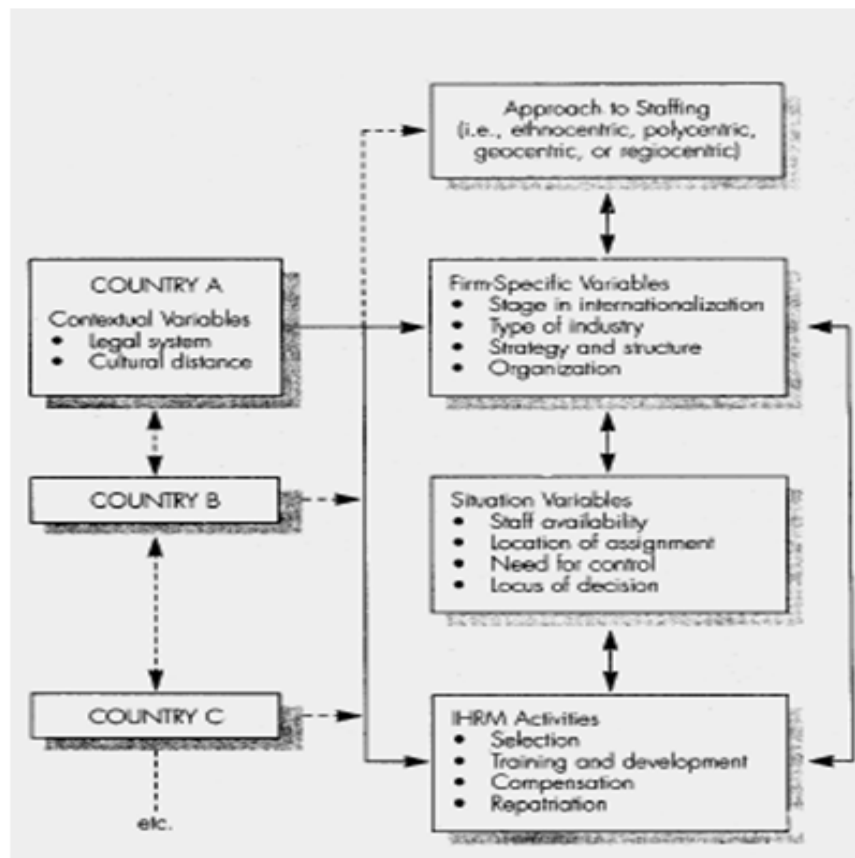
The IHRM activities – selection, training and development, compensation, and repatriation play an important role in the development of the effective policies required to sustain a preferred approach to staffing.

***Model of Linking HR with the International Expansion Strategy***

A theoretical model has been developed by the U.S. based Ford Motor Company that links IHRM activities with the international expansion strategies. Welch links firm-specific variables (such as stage in internationalization, organizational structure, and organizational culture) and situation variables (such as staff availability, need for control) with IHRM approaches and activities. Contextual variables (such as cultural distance and host-country legal requirements) are also included.

**Figure:**

**Model of Linking IHRM with International Expansion strategy**



Source: Rochard Regis, 2008, “strategic Human Resource management and Development”, Excel Books, New Delhi, pg.205

The above figure clearly depicts the linkages that explain the various interrelationships between organizational factors and IHRM activities. These interrelationships further determine a firm's approach to the staffing for global operations. The internationalizing firms whether to adopt an ethnocentric, polycentric, geocentric, or regiocentric approach to employ staff for subsidiary operations depends on these interrelationships. Thus this model may help to integrate various organizational factors and HR issues.

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### 3.10 CONCLUSION

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Business organisations are economic and social entities in which culture plays a significant role. Organisational processes of a global company are highly complex. The structuring the organisations become critical and rather difficult when the organisations grow to the stage of a transnational company and become a truly global company. The complex structures and highly networked global organisations require effective control systems and coordination mechanisms. The IHRM activities – selection, training and development, compensation, and repatriation play an important role in the development of the effective policies required to sustain a preferred approach to staffing.

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### 3.11 SUMMARY

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**Your have learned in this lesson that:**

- ◆ Every countries culture very often found to be unique. The cultural aspects of the countries widely differ with one another. These cultural differences across the countries necessitate corresponding differences in management practices among a company's subsidiaries.
- ◆ Today there is a pressing need to understand and appreciate the human implications of globalization thus resulting to the emergence of international HRM (IHRM). There are many employee management issues that have to be dealt and addressed by the international HR managers.
- ◆ The strategic role of HRM is more complex in an international business. Because the underlying differences in the cultures, social, legal, economical systems complicate HR functions like staffing, management development, performance evaluation, and compensation.
- ◆ The type of international organisational structure adopted by the MNE will provide the context for many of the IHRM issues faced by the company.

- ◆ A widely dispersed business organisation across the world needs an effective control and coordination mechanisms.
- ◆ The implications of the international expansions will be more on HRM functions. It is to be noted that the success or the failure of any international expansion strategy majorly relies on its HRM functions thus an internationalizing firm has to link its HR activities to the international expansion strategy.

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### 3.12 CASE STUDY

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Mr. Robert returned from UK after working as a HR manager in a subsidiary of a global company and assumed office as principal in a reputed company located in Mumbai. He got MBA degree from Oxford University with specialization in Human Resources Management. He has a good personality and believed in neatness and discipline. He wanted to introduce new dress code for the employees of the company to have a distinctive look for the all the employees. He issued a circular in this regards and wanted to ensure its implementation. He announced the dress regulation officially to all the staff members working in the company. No one reacted initially but after two months, the Mr. Roberts office received a written memorandum from the staff the old system be restored because new dress code is intervening into sentiments of the employees. Mr. Robert did not yield to this demand. He wanted to trouble the staff in an indirect way by means of coercion and threatening. Many staff members reported this matter to human rights violation commission.

#### Questions

- a) What do you think are the reasons for the staff not supporting the dress code?
- b) Analyse the case and find a way out for Mr. Robert from this sticky situation.

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### 3.13 NOTES

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### **3.14 KEY WORDS**

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1. Cultural Diversity
2. Workforce Diversity
3. Language Diversity
4. Economic Diversity
5. Matrix structures
6. The Heterarchy
7. The Transnational
8. The network structure
9. Coordination Mechanism
10. Control systems
11. International Expansion strategy

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### **3.15 SELF ASSESSMENT QUESTIONS**

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1. “The management style of an organisation is determined by the underlying culture of a country”. Explain
2. Discuss the culture and employee management Issues.
3. Discuss the various types of organisational structures of a global company.
4. Explain the role of control and coordination mechanisms of global company.
5. Describe the model of linking HR with the international expansion strategy.

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## **UNIT-4 : THE CHALLENGES OF INTERNATIONAL HUMAN RESOURCES MANAGEMENT**

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### **Structure :**

- 4.0 Objectives
- 4.1 Introduction
- 4.2 The Major Issues and Challenges of IHRM
- 4.3 Cross-Cultural Issues
- 4.4 Cultural Shock
- 4.5 Managing Diverse Workforce
- 4.6 Expatriate
- 4.7 Repatriation
- 4.8 Conclusion
- 4.9 Case Study
- 4.10 Notes
- 4.11 Summary
- 4.12 Key Words
- 4.13 Self Assessment Questions
- 4.14 References



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## 4.0 OBJECTIVES

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After studying this unit, you should be able to;

- identify the challenges and issues of IHRM
- define culture and describe the factors that cause cultural differences.
- explain the need for international managers to identify the cultural differences.
- explain the strategies of cross-cultural management
- examine how firms make expatriates to cope with cultural shock.

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## 4.1 INTRODUCTION

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Globalization of business has resulted in international orientation of organisational policies and procedure. The internationalization of HRM has given a different perspective to the existing functions like employee procurement, training and development, performance management, compensation, employee motivation, welfare or industrial relation. International orientation has a greater relevance through inter linkage of business across nations.

The success of an organisation significantly depends on its human resources. So organisations try to bring in innovative procedures and policies such that effective utilization of employee's talent can be possible. An international business must procure, motivate, retain, and effectively utilize services of people both at the corporate office and at the foreign plants. The process of procuring, allocation and effectively utilizing human resources in an international business is called international human resources management (IHRM).

IHRM includes a combination of HR activities, employees, and countries of operation. The three broad activities of IHRM, namely procurement, allocation and utilizing cover all the six activities of domestic HRM. The six functions of domestic HRM are – HR planning, employee hiring, training and development, remuneration, performance management, and industrial relations. The three types of employees of an international business are – host country nationals, parent country nationals, and third country nationals. Thus, for example, Google, which employs Indian citizens in its Indian operations, often sends US citizens to Asia-Pacific countries on assignment, and may send some of its Singaporean employees to its Japanese operations. The three national or country categories involved in IHRM activities are – the host country where a subsidiary may be located, the home country where the company has its headquarters, and 'other' countries that may be the source of labour or finance.

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## 4.2 THE MAJOR ISSUES AND CHALLENGES OF IHRM

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- ◆ Globalization
- ◆ Organisational Restructuring
- ◆ Diverse workforce
- ◆ Changing employee expectations
- ◆ Variance in HR policies and practices
- ◆ Cross-cultural issues

### **Globalization:**

Globalization has made more and more foreign firms enter Indian market. Many Indian firms are forced to think in international perspective. This made the managers to face the tough challenge of dealing with foreign competition. Technology enhanced the speed of globalization which resulted in more and more big MNCs enter India through joint ventures with existing local companies.

### **Organisational Restructuring:**

Acquisitions, mergers and other alliances of organisations have yielded lot of changes in the organisational environment. This posed a great challenge to HRM to restructure, design organisation which made an impact on different organisational levels and employees. The workforce experienced uncertainty about their positions in the new organisation. Many MNCs also announced layoff of employees. The anxiety and tension in the employees of both home company and host company was as follows:

- Organisational culture changes
- Job position changes
- Remuneration and benefit changes
- Job transfers
- Lay-off
- Career-path changes

### **Diverse Workforce:**

The major challenge that has resulted from changing workforce demographics concerns dual career couples, couples where both partners are actively pursuing professional careers. Organizations have been accustomed to using job moves and

physical relocation as an important means of developing talent. Men or women moving through organizational ranks to upper-level positions need experience in a variety of roles in different organizational units. Frequently, physical relocation is required. The increasing number of dual-career professionals limits individual flexibility in accepting such assignments and may hinder organizational flexibility in acquiring and developing talent.

### **Changing expectations of employees:**

With the changes in workforce demographics, employee expectations and attitudes also have shifted. Traditional allurements such as job security, attractive remuneration, housing and the like do not attract and motivate today's workforce. Employees demand empowerment and expect equality with the management. Previous notions on managerial authority are giving way to employee influence and involvement along with mechanisms for upward communication and due process.

### **Variance in HRM practices:**

Great variations can be seen in the attitudes of employer and employee towards employment policies and practices among different nations. In some countries *hire and fire* is the common thing whereas in a number of countries the ideal norm has been lifetime employment. Moreover several other the differences prevail in HR policies and practices causing a significant challenge to international HRM. The system of rewards, promotion, incentives and motivation, system of labour welfare and social security, etc., vary significantly between countries.

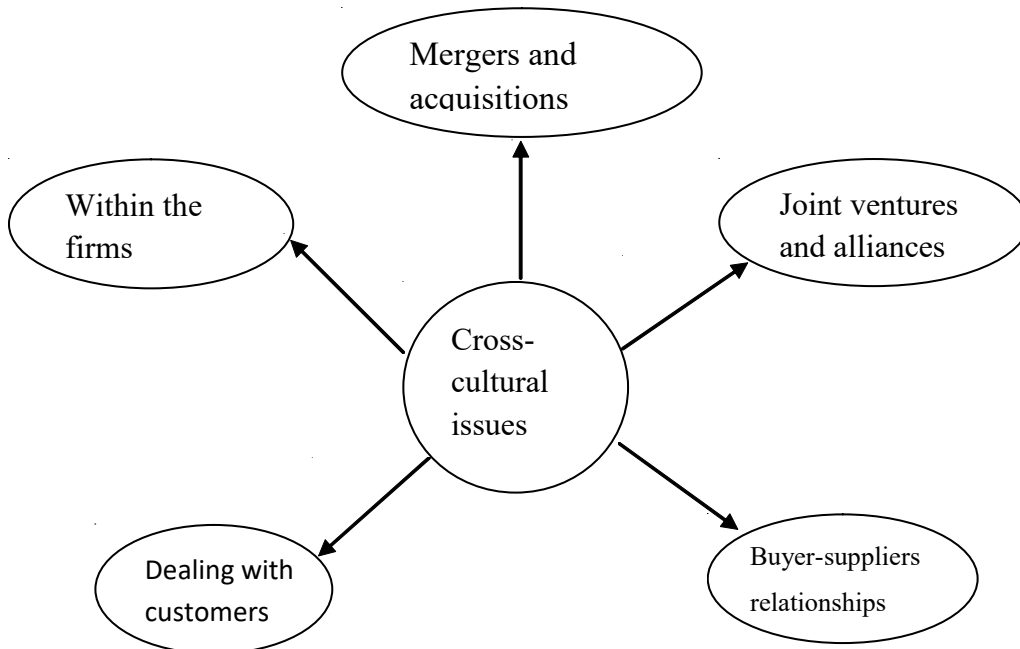
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## **4.2 CROSS-CULTURAL ISSUES**

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Cross-cultural (cross-national) management issues arise with strategic implications in any of the following business situations:

**Figure: 4.1**  
**Cross-cultural Issues**



◆ **Within individual firms**

A firm when becomes global may have to encounter many cross cultural issues. The parent company need to understand different beliefs, values, and patterns of behavior based on their underlying national culture. The managers from a foreign parent company need to understand that local employees from the host country may require different organization structures and HRM procedures.

◆ **Mergers and acquisitions**

Cross-cultural issue emerges when companies located in one country merges with a firm located in another country. In cross-border mergers and acquisitions (M&As), realizing the expected synergies very often depends on establishing structures and procedures that encompass both cultures in a balanced way.

◆ **Joint ventures, alliances**

Cross border joint ventures and alliances requires many cultural adjustments. The success or failure of any joint venture and any alliance depends on the effective cross cultural management. Because when firms makes an alliance with a firm located another country need to have a comprehensive idea over their work culture, business culture and countries culture.

◆ **Buyer–supplier relationships**

Cross-cultural issues may also sprout when two firms located in two different countries collaborate for having buyer-supplier relationships. In such situations also there is a need for many cultural compromises *between* two or more firms.

◆ **Dealing with customers**

Culture influences the behavior and preferences of clients and customers. To sell successfully in a foreign market, a manager needs to adapt his or her product or service to meet the different needs of that particular group of customers. Any alteration in advertising, marketing, product or service features, after-sales support, technical back-up, documentation, etc., will be partly guided by cultural differences.

Thus organizations from various countries have different beliefs, values, and patterns of behavior developed basing on their fundamental national culture. A wide difference could be seen in the people attitudes toward work and workplace practices, management–labor relations, the decision-making hierarchy, and division of responsibilities. These differences due to Cross-border M&A often require changes to the marketing and branding of products and services as sales are expanded into new markets. Differences in the language, values, and preferences of customers in different countries also need to be taken into account.

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## **4.3 CULTURAL SHOCK**

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The term Culture shock has been popularized by Kalvero Oberg a famous anthropologist. The cultural shock means a psychological confusion undergone by the people who suddenly have to live and work in a completely different cultural environment. According to Oberg culture shock is the anxiety that results when all familiar cultural supports have been closed to a person who is entering a new culture.

### ***4.3.1 Dimensions of Cultural shock***

The cultural shock is a natural phenomenon which is experienced by every individual when he or she encounters an unfamiliar cultural setting for the first time.

But the very success or failure of a foreign assignment depends largely on how well one can make the psychological adjustment and weaken the effects of the radically different cultures on his or her. The following are the various dimensions of cultural shock:

- A sense of confusion over expected role behavior
- A feeling of surprise, sometimes a kind of disgust, after realizing some of the features of the new culture
- A kind of feeling of losing certain old familiar surroundings and cultural patterns
- A sense of being rejected by members of the new culture
- A feeling of losing self-esteem due to the inability to work in the new cultural work setting thus resulting in not meeting the professional goals perfectly.
- A sense of powerlessness.
- A sense of doubt when old values which were strongly believed to be correct are brought into question.

#### ***4.3.2 Stages of Cultural shock***

The extent of cultural shock undergone by the individuals who take up international assignments vary significantly. Some people may not adjust and adapt to the new cultural patterns thus repatriate shortly after arriving in the host country. Some others manage themselves and try to minimize the psychological discomfort thus adapting to the new culture. Hence the extent of culture shock may vary from person to person. According to Oberg (1960), culture shock passes through the following four stages:

##### **◆ The honeymoon stage:**

It is a very initial stage of cultural shock. An individual takes up the foreign assignment with all excitement. Initially everything appears to be very positive for him or her because all that is new is exotic and exciting. At this stage an individual's attitudes about the host country, their working pattern appears to be positive. But the real feelings about them may emerge only when certain time is passed. This stage may last for several weeks perhaps several months.

##### **◆ Irritation and hostility:**

Just like in marriages, honeymoons do not last forever. The small problems at work, at home, and at the marketplace slowly arise. Even the small problem appears to be a very big obstacle which is impossible to overcome. Now onwards all of a sudden it is the cultural differences not the similarities, that becomes visible so large. One will be in this situation for the next twelve to eighteen months. The speed with which one passes through this crisis stage of culture shock will vary directly with the ultimate success of the international assignment. The most pathetic situation is that many people

fail at this stage, repatriate or few may manage to stay but at a high cost to themselves, their families, and their companies.

◆ **Gradual adjustment:**

In this stage gradually an individual passes the crisis and slowly recovers. The people in this stage slowly understand and identify ways and means of operating in this new culture settings. Now the people could sense the culture and tries to bring changes in their behavior so that they fit into the new culture and work comfortably. Thus we may say that culture seems more natural and more manageable.

◆ **Biculturalism:**

This is the final stage where an individual either fully adapt with the radically varied culture or come closer to these culture. The people in this stage understand even appreciate all such problems related to local cultures which ones were perceived as surmountable obstacles. Moreover, the situations that were prevailing due to the cultural shock may make the individual to realize that many local customs to which they have become accustomed and will be missed upon returning home.

#### ***4.3.3. How to cope with Culture Shock?***

All those who live and work in different cultures for extended periods of time experience culture shock atleast to some degree. Organisations may take certain steps to minimize the negative impact of cultural shock though we know that there is no “quick fix” for culture shock.

- Organisations and the individuals need to have the proper understanding over the concept of culture. This may help individuals to appreciate other cultures to the fuller extent, regardless of where one might be conducting business.
- Becoming familiar with the local patterns of communication both verbal and non-verbal may further help in understanding culture. Because it is the communication which helps in removing many misunderstandings.
- Another best way to minimize the cultural shock is to have a healthy dose of cultural self-awareness. The employee must first of all need to understand their own cultures. This helps the employee to know their organisational philosophy and their belief system. If they know own culture they may also easily learn and understand the other cultures.

- Finally it is advisable to collect a wide range of culture-specific sources. The more the cultural information at hand, the lesser the surprises are likely to be; Thus avoiding the serious impact of cultural shock.

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## 4.5 MANAGING DIVERSE WORKFORCE

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Diverse workforce may become a competitive advantage for the company since diverse workforce brings talents, knowledge, skills which in turn become core competencies of an organisation. Though certain issues emerge from diverse workforce these are proved to be very essential for the companies. Hence there is a need to manage these diverse work forces. The strategies which help in managing diverse workforce are as follows:

- ◆ Effective cross cultural management
- ◆ Nurturing Knowledge sharing cultures
- ◆ Conducting cultural exchange programs through socialization programs
- ◆ Implementing organisational policies and practices fairly
- ◆ Breaking the glass ceilings
- ◆ Conducting cultural training Programs
- ◆ Designing and implementing special organisational policies for women and other minorities working in the organisation.

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## 4.6 EXPATRIATE

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Expatriate is a person who is working and residing in a foreign country during his/her tenure of foreign employment. Therefore expatriates include:

- Foreign employees working in domestic company
- Parent country national working in MNC's subsidiary
- Third country nationals working in MNC's
- Host country national working in the parent country of MNC or TNC

### 4.5.1 *Expatriate failure*

The term expatriate failure has been defined as the premature return of an expatriate (i.e. a return home before the period of assignment is completed).



#### ***4.5.1.1 Reasons for the Expatriate failure***

The following are major reasons for the failure of an expatriate found in many research studies:

- ◆ Expatriates inability to adjust with new local cultures
- ◆ Expatriate's spouses inability to adjust.
- ◆ Expatriate's family related problems
- ◆ Inability of an expat to manage international responsibilities
- ◆ Expats personal and emotional maturity

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### **4.7 REPATRIATION**

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The expatriation process also includes repatriation. It refers to the activity of bringing the expatriate back to the home country. It is a stage which require due attention of organisations.

#### ***4.6.1 Who is a repatriate?***

Repatriate is a person who returns to the home country after the completion of his or her foreign assignment.

#### ***4.6.2 Challenges before a repatriate:***

An expat's reentry into the home country presents new problems to him or her. A repatriate has to cope with re-entry shock, or reverse culture shock. The reentry shock is the shock that a repatriate experiences after a long stay in the other countries as they may be less prepared for homecoming to present problems of adjustment. Few such challenges before a repatriate are as follows:

- **Issues related to career progression:**

Majority of the employees accept the international assignment because it is the one which help him or her for their career progression. A repatriate expects a proper re-entry position in their parent company since the international assignment has caused considerable family disruption. Moreover the repatriate may also fear that during his/her stay for such a longer periods in abroad has caused a loss of visibility and isolation from the parent company which further may have adverse effect on his or her career prospects.

- **Devaluing the International Experience:**

Organisations need to value the experience gained by the repatriate from the international exposure and should provide him a suitable position and appropriate tasks must be given to them. Doing otherwise leads to the underutilization of resources. Career anxiety is compounded with such practices. Organisations need to exploit the international experience and cosmopolitan view that the expatriate has gained during his or her stay. Hence giving suitable positions or tasks to a repatriate is yet another challenge before global organisations.

- **Coping with new role demands:**

Certain changes in the role behaviors might have taken place in a person who worked for quite long periods in the foreign location. For example, an American working in Indonesia may have altered his participative managerial style to one more authoritarian based on messages sent by the foreign subsidiary, or it could be that the time in the Indonesian subsidiary has reinforced an authoritarian tendency. Conflict is likely to occur if the repatriate does not resume the managerial behavior appropriate to the U.S. context upon return.

- **Loss of Status and Pay related concerns:**

A Repatriate after resuming to his or her or his position within the home company loses his/her status and autonomy. This may lead to the treating a repatriate as just another company executive by the home company authorities and employees. This shift may cause readjustment problems. A repatriate Pay packet may also be usually lower in absolute terms.

- **Social Factors:**

The international experience can distance the repatriate, and his or -her family, socially and psychologically.

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## 4.8 CONCLUSION

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International HRM playing a significant role in the era of globalization. IHRM has to encounter several issues and challenges like effects of globalization, corporate restructuring, increased diversity in the workforce, changing expectations of people, prevalence of variations in HRM policies and practices across the countries. Cultural differences can have an important effect at the face-to-face or company-to company levels and need to be taken into account in dealing with different groups of customers around the world. Minimizing the Culture shock can reduce the chances of expatriate failure.

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## 4.9 CASE STUDY

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Directly after completing a master's degree in international business, Dick Sutton decided to accept a job with a firm in 'Tokyo. He had studied Japanese for a year and was most interested in immersing himself in Japanese culture. Within the first month of his arrival, he was invited to an office party. As was the custom, most of the employees were expected to entertain the group with a song, poem, or joke. Knowing the keen interest the Japanese have in baseball, Dick recited the poem "Casey at the Bat," which seemed to be well received. Dick was having a good time at the party and was secretly congratulating himself on his decision to come to Japan. In fact, he couldn't help thinking how informal and playful all his colleagues were, including the upper-level executives, a far cry from all the descriptions he had read of the Japanese as austere and humorless businesspeople. Later in the evening, Dick found himself talking with two of his immediate superiors. Wanting to draw on the informality and good humor of the moment, Dick casually brought up some plans he had for a new marketing strategy, only to be met with near total indifference. For the remainder of the evening, Dick felt as though he was not being included in the party.

*What advice could you give Dick?*

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## 4.10 SUMMARY

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**Your have learned in this lesson that:**

- ◆ The success of an organisation significantly depends on its human resources. So organisations try to bring in innovative procedures and policies and encounter the challenges and issues in front of IHRM.
- ◆ Cross-cultural (cross-national) management issues arise with strategic implications.
- ◆ Organisations may take certain steps to minimize the negative impact of cultural shock though we know that there is no "quick fix" for culture shock.
- ◆ Though certain issues emerge from diverse workforce these are proved to be very essential for the companies. Hence there is a need to manage these diverse work forces. The reentry shock is the shock that a repatriate experiences after a long stay in the other countries as they may be less prepared for homecoming to present problems of adjustment.





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#### **4.12 KEY TERMS**

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1. Organisational Restructuring
2. Diverse workforce
3. Cross cultural issues
4. Cultural Diversity
5. Cultural Shock
6. Expatriate
7. Expatriate Failure
8. Repatriation
9. Repatriate
10. Re-entry shock

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#### **4.13 SELF-ASSESSMENT QUESTIONS**

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1. Discuss the major issues and challenges of IHRM.
2. Why are cultural differences an important factor when adapting products for new overseas markets?
3. Discuss the various stages of cultural shock.
4. “Diverse workforce provides for opportunities and challenges”.-Discuss
5. Why should an global organisation give importance to the process of Repatriation
6. State the reasons for the failure of an expatriate.

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## **MODULE - II**

### **STRATEGIES FOR INTERNATIONAL GROWTH**

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#### **UNIT -5 : EXPLOITING GLOBAL INTEGRATION**

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**Structure :**

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Concept of Global Integration
- 5.3 Logics of Global Integration
- 5.4 Differentiation
- 5.5 Case Study
- 5.6 Notes
- 5.7 Summary
- 5.8 Key words
- 5.9 Self Assessment Questions
- 5.10 References



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## 5.0 OBJECTIVES

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After studying this unit, you should be able to:

- define integration
- discuss the logics of global integration and
- explain the global differentiation and types of differentiation

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## 5.1 INTRODUCTION

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The globalization poses many opportunities and threats to international business, in order to utilize opportunities of globalization and tackle the threats of globalization the global business needed global integration. However, global integration has been used widely to explore international HRM strategy and practices of global enterprise. However, the notions of global integration and local responsiveness has its roots in the classic work of Lawrence and Lorsch (1969) who pointed out the integration-differentiation issue as a central management concern . The scholars argue that in order to achieve its goal effectively, any large organization needs to pursue differentiation by delegating groups of various activities into relevant actors in a manner that enables the actors to focus on a specialized area of activities. As each differentiated unit may endanger the effectiveness of an entire organization by pursuing its own goal, it is inevitable that some integration mechanisms are needed to coordinate the differentiated subunits. Thus, how to integrate subunits while allowing them necessary flexibility to respond to their unique situations is a key challenge for leaders of large organizations.

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## 5.2 CONCEPT OF GLOBAL INTEGRATION

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The driving growth globally today requires companies to leverage the skills and capabilities of a global workforce, integrate operations and successfully manage their business globally, this is called as global integration. Global integration is not labor arbitrage, it is way in which to capitalizing on emerging talent pools and integrating them with our local expertise to drive value for clients. Moreover, business organization has been using technology to automate processes for continuous productivity gains and driving fundamental change in the way to manage business operations. When a business organization does this it needed to transforms the processes and integrates globally.

Initially, the concept of global integration was developed as a combined concept of strategic coordination and operational integration at the global level. Even though the term ‘global integration’ might refer to a broad managerial approach within an global business.,

the authors used it as a way to identify and classify environmental pressures that lead to the managerial approach by adding a word 'pressures' to it. They suggested seven factors as the pressures for global integration:

- Importance of multinational customers
- Importance of multinational competitors
- Investment intensity
- Technology intensity,
- Pressure for cost reduction
- Universal needs of customers, and
- Access to raw materials and energy

Doz, Bartlett and Prahalad (1981) argue that global context, asserting that MNEs, as collective entities of subsidiary organizations operating in varied local conditions, must be differentiated enough to cope with local demands to compete against local rivals and simultaneously need to coordinate their dispersed overseas operations to exploit the benefits of scale and scope fully. Thus it is obvious that the global integration needs centralized control over key resources and operations that are strategic in the value chain.

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### **5.3 LOGICS OF GLOBAL INTEGRATION**

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The global integration has been getting demand and great importance over a period of time under globalized business environment, because every business intension is to prove better than competitors in all respects. However, the followings are the logics beyond global integration.

- ◆ To expand internationally while maintaining close control over the value chain, that is string of primary activities (R&D, manufacturing, logistics, marketing, etc.) and support activities (such as HR and procurement) that are the source of value added, and the linkages between these elements
- ◆ Economies of scale- A company can lower its unit costs by centralizing critical value chain activities, such as manufacturing or logistics. This may involve having a small number of large facilities to make products for export, or creating a network of specialized and focused operations spread around the world that are tightly controlled by the central hub.

- ◆ Domestic competition is intense; international activities are restrained by governments.
- ◆ Transportation cost is an important element in final cost so; it is needed to minimize overall cost.
- ◆ Local customer service is required in all markets; factor costs differ from country to country, for this reason the global integration is needed.
- ◆ The globalization demanding customer needs are standardized worldwide and standardized purchasing practices exist worldwide.
- ◆ International business working with a presence in all key markets and international competition is intense, for this global integration is must
- ◆ Standardized product technology exists worldwide; and product awareness exists worldwide among customers.
- ◆ Carefully manage their investments in R&D and to maximize economies of scale in manufacturing.
- ◆ Industry and market characteristics may be the most important reasons for global integration.
- ◆ With increased global competition, an argument can be made that global integration is becoming a competitive necessity in a number of markets in which decentralized strategies were dominant in the past.
- ◆ Competitive platforms. Tight control of local subsidiaries by central headquarters may allow rapid response to competitive conditions and redeployment of resources so as to facilitate expansion worldwide. For example, tightly centralized Japanese multinationals penetrated new markets in the past through price subsidization funded by profitable operations elsewhere.
- ◆ Among the factors favoring integration are the emergence of global consumers owing to greater homogeneity of tastes; the diminishing importance of country borders with regional integration.
- ◆ World-class standardization. Key processes are standardized and centrally controlled so as to maintain competitive advantage. The pharmaceutical giant Merck manufactures locally to meet government requirements. Its manufacturing processes are complex, however, and these are standardized in order to maintain high quality.
- ◆ Information advantage. Prime examples of mega national firms—Japanese trading companies (sogo shosha)—are located in every corner of the world. Through the network

of local offices, staffed primarily by Japanese expatriates, they optimize global business opportunities by tapping into pricing and delivery information

- ◆ Serving global customers. To the extent that customers are integrated and operate on a global basis, their suppliers may be forced to adopt a similar structure. Subsidiaries do not have their own stand-alone customers; prices, quality standards, and delivery terms are determined globally.
- ◆ Value chain linkages. Sometimes competitive advantage comes from tight linkages between value chain activities—between R&D, manufacturing, and marketing in the home country which is a technological leader or between manufacturing and logistics. Tight integration allows the firm to stay ahead of technological and competitive changes.
- ◆ Leveraging capabilities. Some companies expand globally by transferring capabilities developed in the home market. The international expansion of both IKEA and Wal-Mart depends on supply-chain management skills that allow these companies to pursue their traditional low price strategies around the world.

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## 5.4 DIFFERENTIATION

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A differentiation calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The differentiation attempts to convince customers to pay a premium price for its good or services by providing unique and desirable features. The message that such a firm conveys to customers is that you will pay a little bit more for our offerings, but you will receive a good value overall because our offerings provide something special.

According to Adam Smith (1776), Trade between organizations is possible, when one organization is more efficient than another in the production of a commodity or provision of a service, but less efficient than the other organization in producing a second commodity or provision of a second service, then both the organization can gain by each specializing on the subject of advantage and exchange a part of the same with another organization subjected to disadvantage

Theory of Comparative Advantage -According to David Ricardo (1817), Trade between organizations is possible, even when one organization is less efficient than another in the production of both commodity or provision of both service. The organization will specialize in producing the commodity or provision of the service, with less disadvantage and exchange a part of the same with another organization subjected to more disadvantage

Theory of Competitive Advantage According to Michel Porter (1979) , competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. Comparative advantage can lead countries to specialize in exporting primary goods and raw materials that trap countries in low-wage economies due to terms of trade, but Competitive Advantage attempts to correct this issue by stressing maximizing scale economies in goods and services that garner premium prices

The Era is of Competition Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors by performing at a higher level than others in the same industry or market. These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel human resources.

New technologies as robotics and information technology either to be included as a part of the product, or to assist making it. A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player

The Era is of Competition Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players

Competitive advantage provides the understanding that resources held by a firm and the business strategy will have a profound impact on generating competitive advantage. Business strategy is the tool that manipulates the resources and create competitive advantage, hence, viable business strategy may not be adequate unless it possess control over unique resources that has the ability to create such a unique advantage

### **Types of Differentiation**

Four types of differentiation are identified.

- ◆ First, people in different work units tend to develop their own perspective on the organization's goals and how to pursue them. For example, accountants may see cost control as most important to the organization's success, while marketers push for more varied products and improved quality.
- ◆ Second, people in work units often differ in their time orientation. Production people, for example, are accustomed to handling crises that have to be dealt with immediately, while people in research and development may be preoccupied with problems that will take years to solve.

- ◆ Third type of differentiation – interpersonal styles. In production, for example, where people usually need to make fast decisions, they may favor somewhat abrupt communication and clear cut answers. R&D employees may prefer more easy going communication that encourages brainstorming and consideration of multiple alternatives. Finally, departments may differ in their formality. While the production unit may need to have very specific standards of performance, more general standards may prevail in the personnel department.

However, differentiation can lead to conflict among individuals and organizational units. But constructively resolved conflict is healthy for an organization's operations. When various members of the organization present their viewpoint, argue them openly, and in general make certain that they get heard when problems exist, they force managers to consider the special needs and knowledge of individual departments. A study of managers in eight nations and four national groupings found that most managers appeared to be rewarded more for non-cooperativeness within reasonable limits, than for cooperativeness. Exceptions included Japan and the Scandinavian countries, where cooperativeness was more rewarded. In place of the term coordination, integration can be used to designate the degree to which members of various departments work together in a unified manner. They emphasize that while departments should cooperate and their tasks should be integrated where necessary, it is important not to reduce the differences that contribute to task accomplishment. It may be useful for the sales department to give advice on advertisements to the graphic artists who will prepare them.

However, if salespeople view themselves as adjuncts of the advertising department, then the functioning of both the sales and advertising units will be impaired.

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## **5.5 CASE STUDY**

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When Sean and Jayne Douglas started their winery, they knew that differentiating their product would be critical for success. The wine industry in Canada, as in most other countries, is populated by numerous producers all selling wine but differentiated—perhaps by developing unique blends, altering the production process, or marketing in different segments. This is what economists call a monopolistically competitive industry. As such, wineries have important lessons to teach firms in other industries with similar market structures who face the same challenges. Within the four major market structures recognized by economists—monopoly, oligopoly, monopolistic competition, and perfect competition—monopolistic competition is perhaps the most common. It combines some features of monopoly with perfect competition. Monopolistic competition is characterized by three

conditions: many producers in the market, differentiated products, and free entry and exit into the industry in the long run. In a monopolistically competitive market, each producer has some ability to set its product's price, but exactly how high is limited by what the competition is doing. During September 2009, Ridge Road Estate Winery formally opened its doors in Southern Ontario's Niagara region, known for its vineyards and wineries. Ridge Road started out selling grapes and juice to amateur winemakers and other small wineries. Producing their own product and opening their own winery was always part of the Douglas' plans when they bought the 30-acre family farm in 1994. With 12 acres of productive vines, the current volume is 3,000 cases, which has grown every year by 500 cases. The winery has a maximum production target of 5,000 cases per year. Entering the wine industry in Canada is no small decision; there are more than 350 domestic wineries alone. For Canadian wine producers, the domestic market is the most important. Annual per capita consumption of wine in Canada increased between 2000 and 2007, growing from 11.3 to 14.6 liters. According to Statistics Canada, growth in domestic wine consumption in recent years has out-performed that of beer and spirits. But consumption is still low compared to other major wine-producing countries such as France or Italy, where per capita consumption is more than four times that of Canada. Further intensifying competition are imported wines from numerous producers. Imported wine sales in Canada rose from \$630 million in 1997 to \$1.7 billion in 2007. In 2007, France accounted for 26.2 percent of these imports, followed by Italy (18.8%), Australia (18.4%), and the United States (13.6%). Given the intense competition within the domestic market, the challenge for Ridge Road was to differentiate its product from wines marketed and sold by both domestic and foreign producers. Differentiation is critical to firms in a monopolistically competitive industry because it is the only way they can acquire some market power to raise their prices over marginal cost and earn a positive profit.

### **Questions**

You are required to read the above case carefully and answer the following questions.

1. What are the different strategies needed to attract the more customers by Sean and Jayne Douglas? Recommend
2. How differentiation strategy does helps to get advantages over competitors? Explain





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## **5.9 SUMMARY**

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This module focuses on to study aspects like global integration, logics of global integration and differentiation. However, this unit helps students able to gain more knowledge about global integration and differentiation. In addition to that the module has one case study on differentiation from this the student able understands more about differentiation significance in modern business.

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## **5.10 KEY WORDS**

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Global, integration, differentiation, logics of global integration, economies of scale, global customer, domestic competitors, chain linkage and local customers.

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## **5.11 SELF ASSESSMENT QUESTIONS**

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1. What is global integration? Explain its role in global business
2. What are the logics behind global integration? Explain
3. What is differentiation? Explain its role in global business

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## **UNIT - 6 : MASTERING EXPATRIATE**

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### **Structure :**

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Meaning of Expatriate
- 6.3 Significance of expatriate
- 6.4 Demerits of expatriate
- 6.5 Beyond the traditional expatriate
- 6.6 Limitations of Global Integration
- 6.7 Case Study
- 6.8 Notes
- 6.9 Summary
- 6.10 Key words
- 6.11 Self Assessment Questions
- 6.12 References

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## 6.0 OBJECTIVES

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After studying this unit, you should be able to;

- Define expatriation
- Discuss facet of beyond the traditional expatriate
- Explain the limitations of global integration.

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## 6.1 INTRODUCTION

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Before globalization, countries are rarely interacted each other and the economy was sheer reflection of the business activities within the country. Almost all business was local firms being set up to fulfil a country's needs and demand of the people of the society. The local organization products were designed to meet the need of local consumers, even firms performing well in its home countries; they would just consider opening more branches within the countries. Never would they think about reaching out to foreign markets because of the great difficulty connecting to other parts of the world. However, after globalization removing trade barriers and tariff, there is a trend for firms to expand their markets beyond the national boundaries. As a result, firms are competing with each other in one huge global market. Many of them even operate in different countries throughout the globe to grab more potential markets. To meet the requirements of potential consumers in other countries, many MNCs will set up subsidiaries in host countries.

However, there are many motives with respect to deployment of expatriates in MNCs. To begin with, host country nationals may not possess suitable candidates to fill the position in which MNCs have no choice but to deploy expatriates. Secondly, some MNCs send out staff from headquarter to foreign subsidiaries as a means to deepen and enhance their competence in handling international business. Thirdly, deploying expatriates can increase the knowledge transfer within MNCs. Expatriates being sent out from headquarter can learn the business practice work best in host countries. Last but not least, some MNCs send out expatriates in order to exercise tight control on subsidiaries. Since expatriates (PCNs) know the practice of home country best, they can take the practice to foreign subsidiaries and it is very common in MNCs that would like to maintain growth and prosperity in business.

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## **6.2 MEANING OF EXPATRIATE**

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Globalization has involved a substantial increase in cross-cultural interactions. The increased internationality of the economic, political and social spheres has rendered cross-cultural interactions, that is, contacts between people from different cultural backgrounds.

However, expatriate refers an employee sent by his or her employer to work in a foreign country. The firm is normally referred to as the parent company, while the country of employment is known as the host country. Those employees are called as expatriate. An expatriate is a person temporarily or permanently residing as an immigrant in a country other than that of their citizenship. In common usage the term is often used in the context of professionals or skilled workers sent abroad by their companies to perform the different activities of company to achieve the company objectives.

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## **6.3 SIGNIFICANCE OF EXPATRIATE**

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- ◆ Advantages include permitting closer control and coordination of international subsidiaries
- ◆ Employers may also want to exercise greater corporate control upon the management and daily functions of subsidiary employees, so expatriates provide the extra supervision.
- ◆ Expatriates may provide better expertise in other foreign markets of existing subsidiaries.
- ◆ Expats have increased understanding of the company's global operations and can help the local employees identify and meet company objectives.
- ◆ Expatriates also play a critical role in the training and development of new management.
- ◆ Essentially, expatriates serve as the means through which strategic control of the subsidiary is accomplished.

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## **6.4 DEMERITS OF EXPATRIATE**

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- ◆ High transfer costs
- ◆ Possibility of encountering local government restrictions,
- ◆ Possibly creating a problem of adaptability to foreign environments.
- ◆ In ability to make the international adjustment,
- ◆ The sheer cost of relocating an employee and his entire family abroad.
- ◆ The cost of training, compensating, and relocating an expatriate along with the expat's family is very high.

- ◆ In addition to increased salary, the cost of living and education for the expat's children in pricy international schools is also covered.
- ◆ Perhaps the greatest disadvantage of using expatriates is the possibility of expatriate failure.
- ◆ Expatriate failure occurs when an expatriate returns to her home country prior to finishing her international assignment, or if the expatriate resigns from her job before completing the assignment.
- ◆ Despite adjustment training, there is no guarantee how well an expatriate will adapt and socialize in the new country.

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## **6.5 BEYOND THE TRADITIONAL EXPATRIATE**

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Expatriation is defined as “the process of an individual moving to live in another country. Following this line of thought, an expatriate can thus be understood as “anyone living or working in a country of which they are not a citizen. The phenomenon is defined with this breadth in order to encompass and allow for the assumed diversity of the phenomenon as well as to ensure a separation with traditional expatriate literature.

In order to capture this phenomenon, they introduced the concept of Overseas expatriate. It is characterized as a personal odyssey driven by curiosity, in which the emphasis is on cultural experience and geographical exploration. The initial goals are characterized as diffuse and personal by nature, including “seeing the world”, “trying something different” and “finding myself”. The role of work is mainly that of ensuring the continuance of the travels. Having spent abroad a period of time, ranging from few months to several years, the person is argued to be likely to return home in order to either continue with his or her career or begin a new one.

This phenomenon is portrayed as highly ad hoc by nature: Work in the host country is suggested to seldom be arranged in advance and the person will therefore switch jobs and be geographically mobile. Consequently, any attachments to the employing companies tend to be weak and temporary. This experience cannot be considered career-oriented, in that the person is inclined to accept unskilled temporary employment, which is unlikely to benefit their career. Conversely, it can even be considered as “short-term career sacrifices”. Any career development is considered to derive from cultural experience instead of work. These may include the broadening of perspectives, the appreciation of cultural differences as well as the building of confidence. The above literature speaking that it is a valuable advancement beyond traditional expatriates.

However, the said literature is not sufficient in characterizing all migration which does not fall under the traditional notions of expatriation. Although this model acknowledges the existence of a few well-qualified candidates who obtain work in advance, the focus is yet on the “thousands of young people heading overseas for a prolonged period of travel, work and tourism. Further, it can say that on the basis of above literature, it has oversimplified the phenomenon. Further, the distinction between traditional expatriates and OEs, further distinctions between the different types of self-initiated expatriates are suggested to be required. Corresponding to OEs and building on the framework established by earlier research study self-initiated foreign work experiences (SFEs) or alternatively self-initiated expatriates.

According to Suture and Brewster (2000), SFEs differ from traditional expatriates in four important respects.

- ◆ Firstly, the defining difference is argued to be the initiative for emigration. Whereas in the case of traditional expatriates the initiative for relocating comes from the employing organization, in the case of SFEs it comes from the individual.
- ◆ Secondly, the goals of traditional expatriates tend to be easier to pin down and more associated with the employing company, although personal motives can coexist. The goals of SFEs are less straightforward and specified, often concerning some form of personal development. Furthermore, they tend to possess a considerably higher personal motivation toward internationalism and be driven by push-factors such as the job market situation and limited domestic career possibilities. These two, the source of the initiative and the goals, can be discussed together, since both correspond to the motives of the assignment. Motives are proposed as the primary feature to be investigated in comparisons between traditional expatriates and SFEs as well as in constructing possible subgroups of the latter. As regards SFEs, they are generally proposed to be motivated by their interest in internationalism and the poor employment situation.
- ◆ Thirdly, traditional expatriates and SFEs can be differentiated by investigating their funding or compensation. As regards the former, funding comes from the company salary and expenses. Expatriate compensation is based on the idea of ensuring the expatriate to maintain a given standard of living and thus compensating for any additional costs, which may arise during the as-segment. Furthermore, an additional premium is suggested to be designed as an incentive for accepting the offer. Generally, the compensation package is thus complex, encompassing various allowances, premiums and insurance. On the other hand, the SFEs are unlikely to enjoy as generous compensation. They are less likely to receive premiums, allowances, additional insurance or performance-based bonuses.

- ◆ Finally, the careers of SFEs are argued to be boundaries and planned by the individuals themselves, whereas expatriates tend to rely on company support, although this may prove insufficient in many cases. These two groups also differ with respect to repatriation arrangements. SFEs face a more uncertain situation and have to re-establish their careers fairly independently. Unlike traditional expatriates, they are largely not promised a job after repatriation and even when some form of agreement is negotiated, this is seldom done prior to the departure. SFEs may be more inclined to accept another assignment and consider a more permanent, if not permanent, stay abroad. They appear yet less optimistic that the international experience be valued.

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## 6.6 LIMITATIONS OF GLOBAL INTEGRATION

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- ◆ **Creation of Trading Blocs -**

It can also increase trade barriers against non-member countries.

- ◆ **Trade Diversion-**

Because of trade barriers, trade is diverted from a non-member country to a member country despite the inefficiency in cost. For example, a country has to stop trading with a low cost manufacturer in a non-member country and trade with a manufacturer in a member country which has a higher cost.

- ◆ **National Sovereignty-**

Requires member countries to give up some degree of control over key policies like trade, monetary and fiscal policies. The higher the level of integration, the greater the degree of controls that needs to be given up particularly in the case of a political union economic integration which requires nations to give up a high degree of sovereignty.

- ◆ **Managing infrastructural or systems incompatibility –**

Even when an organization is using the same system, incompatibility issues can still arise. For example, a large Asian logistics organization used SAP system to integrate its enterprise operations. However, the system used by its HR division was different from the version used by its logistics and finance divisions. The incompatibilities were due to the different implementation instances and the timing of such implementation.

- ◆ **Managing data and application heterogeneity –**

Data and applications from different legacy sources pose significant problems in systems integration, resulting in substantial efforts in rationalizing, standardizing, mapping, migration, and testing. The legacy systems of one large HR consulting company, for

example, comprised a myriad of 52 IT applications. The systems integration through ERP system involved massive efforts, including a separate engagement of its external consultant to develop a rigorous data conversion and migration approach.

◆ **Managing myriads of internal and external connectivity –**

Despite the fact that ERP systems are already well-integrated, more integration is still needed. These systems do not exist in isolation, but are connected to other internal and external applications. The myriad of system interfaces that need to be dealt with can increase the complexity of systems integration. In the case of a large logistics service provider, the new ERP system implemented (though massive) was just part of a larger technological architecture. There were over 290 interfaces to connect to and various transfer formats that had to be complied with. Challenges arose when cooperation had to be sought from various parties to test these linkages, resulting in significant project delay.

◆ **Rationalizing variants in business data –**

Different business units (BU) along the process chain may have different ideas as to what certain data fields actually mean. In one of the organizations we studied, for example, the same item was categorized differently by a different BU. A ‘chair’ would be recorded as an asset by one BU and to be tracked until condemned, but to another BU, the chair was simply an expense item. The difference meant that extra work was needed to synchronise the consistent treatment of business data, in order to have shared data that made sense and would be useful to each BU.

◆ **Rationalizing variants in business processes –**

Differences can also arise due to disagreement on whose business process is to be deployed as the standard process template. In the case of a large logistics service provider, the engineering maintenance process for Land BU (e.g., truck maintenance) was less complex compared to the same process for Air BU (e.g., helicopter maintenance). Air BU thus had more complex requirements (e.g., with maintenance process configured at the sub-component level) while such details were not necessary and deemed cumbersome for other BUs. Resolving such differences took substantial efforts as the respective BUs tended to protect their own interests.

◆ **Redistributing work in end-to-end process redesign –**

Operational integration may also require radical process redesign that redistributes the workloads among workers in the process chains. For example, some data entry work may be done locally, while other analysis or approval tasks are consolidated in regional



centers. The costs and benefit of EI may fall disproportionately on different stakeholders. In one of the organizations we studied, the redesign of its enterprise procurement process led to the debate of who should perform the laborious data input for detailed asset reporting.

- ◆ **Lack in strategic clarity for EI** – Even as organization embarks on EI, the clarity of EI as an enterprise strategic thrust may remain vague. It is often unclear how EI relates to the other strategic initiatives within the enterprise. Sometimes, incompatible artifacts of old or other strategies are not removed. One public sector organization in our study was seeking to leverage the new visibility in EI to embark on a New Financial Paradigm whereby BU managers would be empowered to manage their own budgets. Despite the intended financial empowerment, little had changed since the old practice of discretionary budget (re)allocation by senior management still prevailed. Yet, at other times, artifacts of new strategies are not sufficiently institutionalized. An IT executive of a large automotive manufacturer noted the omission in realigning incentive systems in its EI initiative. The intended global, enterprise-wide orientation would never be fully internalized by the BUs, given the continuation of its predominantly local incentive system.

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## 6.7 CASE STUDY

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There are key areas to explore when selecting and preparing expatriates for assignment: adaptiveness, listening skills, empathy, respect for others, self-management, self-awareness, time management, and political awareness etc. Some studies that suggest an expatriate must be able to incorporate values, such as open-mindedness, high self-concept, nonjudgmental attitudes, and social relaxation, in order to understand the value of different cultures and become sensitive to the verbal and non-verbal cues of people from the foreign culture. With respect to intercultural communication competence, people learn how to act effectively when in contact with the new cultural environment. When they know what to do and what not to do, they will be able to communicate effectively without offending any parties.

### Questions

1. What are the key areas to explore when selecting and preparing expatriates for assignment?
2. What are the traits, skills, abilities may be desirable in managers to take an overseas (expat) assignment?



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## 6.9 SUMMARY

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The MNCs needed relocation, managing cultural/ orientation training, remuneration and payroll administration etc. They may take a role in supporting expatriate adjustment, international managers working overseas and on-assignment performance generally. At the international level, HR development professionals may be responsible for training and development of employees located in subsidiaries around the world, specialized training to prepare expatriates for assignments abroad, and development of a special group of globally minded managers. However, this module meaning of expatriate , significance of expatriate , demerits of expatriate , beyond the traditional expatriate and limits of global integration.

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## 6.10 KEY WORDS

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Expatriate, integration, MNCs, Significance, beyond, traditional SFEs, and limitations.

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## 6.11 SELF ASSESSMENT QUESTIONS

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1. Explain in detail on expatriate
2. What are the merits and demerits of expatriate?
3. Write an analytical note on the concept of beyond the traditional expatriate
4. What are the limitations of global integration?

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## **UNIT -7 : BECOMING LOCALLY RESPONSIVE**

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### **Structure :**

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Meaning of locally responsiveness
- 7.3 Determinants of Locally responsiveness
- 7.4 Root of locally responsiveness
- 7.5 Understanding diversity
- 7.6 Responding to diversity
- 7.7 Case Study
- 7.8 Notes
- 7.9 Summary
- 7.8 Key words
- 7.9 Self Assessment Questions
- 7.10 References

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## **7.0 OBJECTIVES**

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After studying this unit, you should be able to;

- Define local responsiveness
- Analyse the determinants of local responsiveness
- Illustrate the root of local responsiveness and
- Explain the diversity and responding diversity

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## **7.1 INTRODUCTION**

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The global commodity supply chains emphasize the need to look not only the extent of geographical dispersion of production arrangements, but also for their organizational scope. However, the globalization of the competitive environment requires companies that operate in the international market to balance its international operation strategy between global integration and local responsiveness, becoming this paradox a critical and decisive factor in competitiveness and corporate sustainability.

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## **7.2 MEANING OF LOCALLY RESPONSIVENESS**

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Local responsiveness, also known as localization, is the willingness of firms to make adjustments to their products, services, and ways of conducting business at the local level, taking into consideration local culture and needs. Local responsiveness is at one end of the standardization spectrum.

Local responsiveness, also known as localization, is the willingness of firms to make adjustments to their products, services, and ways of conducting business at the local level, taking into consideration local culture and needs. Local responsiveness is at one end of the standardization spectrum. Although it is costly, local responsiveness is driven by consumer tastes and preferences, local, traditional business practices, distribution channels, and host government demands. Such customization may also be motivated by local content rules, local manufacturing and testing requirements, and threats of protectionism. It reduces the potential benefits to be gained from manufacturing a standardized product in the lowest cost location and then selling it globally, the basic approach to standardization.

Bartlett Ghoshal, (1991). On the other hand, local responsiveness means a specific and quick answer to the needs of clients in their various host countries. Thus, it is clear from the above that the local responsiveness deals with to the decision to

distribute work in many locales versus consolidating work in one or a few centralized locations. Distributing work to many locales maximizes firms flexibility to complete work tasks any time, any place in order to achieve organizational objectives.

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### **7.3 DETERMINANTS OF LOCALLY RESPONSIVENESS**

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- ◆ Environmental Complexity - A complex environment increases the transaction cost of trading and hampers global integration, when a firm faces a complex environment, it faces major difficulties in taking strategic decisions and organizing their productive resources. If the firm chooses to operate in a complex environment in an integrated manner, that is not acting with local responsiveness, the complexity of the environment can squeeze the economy of scope, hindering potential business, and also could increase the costs of information
- ◆ Business specificity- To better understand the particular business practices of a host market is essential obtain specific knowledge of its business in that country. When a subsidiary operates in an unfamiliar business environment, must be adaptable and responsive. This will facilitate the acquisition of specific knowledge about the host country and facilitate the operation at this location. Without this knowledge, choose to operate with responsiveness may cause instability and undermine the momentum of the operation
- ◆ Cultural distance The cultural distance implies differences in managerial values, ways of thinking and rules .Companies tend to be more responsive in markets where there is a greater cultural distance. However it becomes more complex transfer knowledge and products for this host country, which requires greater investment in knowledge acquisition.
- ◆ Competitive intensity -When the degree of competition in a host country is high, foreign firms tend to act more responsive to customer needs; to develop better products and superior services.
- ◆ Heterogeneity of demand- Heterogeneous demands from host countries mean that companies will behave with low integration or high responsibility. To increase their competitiveness and sustainability, companies seek to meet the best possible customers.
- ◆ Location -At the moment of decision of the location of a subsidiary, the policies of the host country government are a major factor, since they may limit the power of choice of the firm. In order to stimulate economic development in his country,

the host country government has a key role in the company's option to act in a locally responsive mode.

- ◆ Previous experience -The internationalization model proposed by the Uppsala school assumes that the lack of experience is a major obstacle to the development of international operations and suggests the accumulation of expertise about the host country. By increasing commitment to the host country the company reduces operational uncertainty and increases economic efficiency.

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## 7.4 ROOT OF LOCALLY RESPONSIVENESS

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Local responsiveness was often the route chosen by multinational companies active in the early part of the twentieth century. To start with, national preferences were more compartmentalized in an era when communication and transport were restricted. More important perhaps, logistical barriers meant that the cost and delays in shipping goods internationally offset the economies of global mass production for all but a limited range of products. Moreover, with local competitors quick to spring up, it was often preferable to set up a fully integrated local operation capable of rapid response. Rising trade barriers in the 1920s and 1930s, forcing even the most ardent pursuers of global economies to set up manufacturing facilities behind high tariff walls, further encouraged local responsiveness.

In certain cases, the onset of World War II isolated overseas operations from their parent organizations, especially those located in Europe. For example, the fear of German confiscation led Philips to spin off its companies in Britain and the United States and to restructure them as legally independent companies owned by trusts. The U.S. companies that internationalized in the 1960s and 1970s faced less pressure to be responsive to national differences and encountered fewer barriers to capitalizing on global-scale economies. But since then, the market leaders in most business sectors have become evenly matched on access to capital, know-how, and technology. So local responsiveness, the capacity to sense and answer varied customer needs, has acquired more value as a source of competitive advantage. Coca-Cola, which during the 1990s constituted the epitome of the globally integrated firm, felt the need to "rediscover" its own multi local heritage.

In the process of "rediscovering" local responsiveness, our understanding of it has also changed. For a long time, the term "local" was generally understood to imply national. For cultural and institutional reasons, nations remain important drivers of differentiated needs, but they are by no means the only ones. In fact, local refers to any

market that has distinctive needs. One of the challenges for multinational companies is precisely to differentiate customer needs more finely market by market. Clearly, “local” needs can be aggregated at various levels, with pressures for responsiveness differing significantly, not just between countries, but also across countries and within countries. Ultimately, local responsiveness refers to a market of one consumer, as captured by the oxymoron of “mass customization.

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## **7.5 UNDERSTANDING DIVERSITY**

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Diversity acknowledges the reality that people differ in many ways, visible or invisible, such as age, gender, marital status, social status, disability, sexual orientation, religion, personality, ethnicity and culture. However, the predominant diversity issues in each country are different. While gender inequality is the oldest and most common diversity issue worldwide, religion and ethnicity separate people in India and Middle East and household status differentiates off-farm migrants from urbanites in China. Chinese rural migrants are routinely looked down on by urbanites and mistreated at the workplace and in society. Multiculturalism has always been the most important dimension of diversity in Western countries, including the EU nations.

Australia and New Zealand, where there are a large number of international migrants with diverse cultural backgrounds. Racial equality appears to be the predominant issue in both USA and South Africa where there has been a long history of systematic discrimination against blacks and other ethnic minorities. Although researchers have examined several aspects of diversity, no comprehensive model so far as developed.

A diverse workforce comprises a multitude of beliefs, understandings, values, ways of viewing the world, and unique information. A cross-cultural and multicultural workforce is a common thread not only in organizations in western economies but also in corporations globally. As a result, diversity has increasingly become a “hot-button” issue in political, legal, corporate and educational arenas.

Rynes and Rosen - argue that the adoption of diversity training does not increase top management diversity and overall workforce diversity. Blum, Fields and Goodman - found that companies with higher diversity tend to provide lower salaries and have higher employee turnover. On the other hand, there is a wide recognition of the value of workforce diversity.

McLeod, Lobel and Cox –pointed out that that a diverse workforce has a better-quality solution to brainstorming tasks, displays more cooperative behavior, relative to homogenous groups, and can raise organizational efficiency, effectiveness and



profitability. In addition to the full utilization of the skills and potential of all employees, managing diversity effectively can contribute to organizational success by enabling access to a changing marketplace by mirroring increasing diverse markets.

However, scholars suggest that the potential benefits will not come into being simply because of greater diversity. Thomas (1990) pointed out that corporate competence counts more than ever, and today's non hierarchical, flexible, collaborative management requires an increase in tolerance for individuality. The question is not, therefore, one of accepting that individuals are different but creating an atmosphere of inclusion and making a commitment to valuing diversity. The literature argues that managers should actively manage and value diversity. If designed and implemented properly, effective diversity management can support key organizational development initiatives

Thus it can say from the above that HR diversity management practices HRM is a set of distinctive activities, functions and processes that are aimed attracting, directing and maintaining an organization's human resources

The HR function has grown substantially over the past few decades and now covers the whole gamut of people management processes. There are different views about the nature of HRM and there exists an enormous variety of HR practices adopted by various organizations

Nevertheless, it is widely recognized that the key practices of HRM include recruitment and selection, training and development, performance management and pay. Recruitment and selection Empirical evidence suggests that many employees and managers regard diversity management as being equal to having an equal opportunity for any person to enter the organization.

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## **7.6 RESPONDING TO DIVERSITY**

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It is an understanding that individuals are unique and different. Diversity includes race, ethnicity, gender, sexual orientation, socio-economic status, culture, age, physical ability and religious, political and other beliefs. People are different. We each are a unique individual coming from a unique background carrying our own unique blends of life experience Valuing individual diversity means reaching beyond stereotypical views of individuals and using the strengths and different perspectives that each person offers as a result of his or her culture, religion, ethnicity, gender, race, national origin, disability, sexual orientation, and age.

## **Ways for responding towards diversity**

Diversity is considered one of the main challenges for human resource management in modern organizations. Despite its strategic importance, the majority of models in this field implicitly consider workforce as a generic and homogeneous category, and do not take into account cultural differences among employees. However, the following are the important ways to respond diversity.

- ◆ The risks and experiences of violence may be shaped by multiple factors, such as age, race, ethnicity, education and social-economic status, marital status, occupation, national origin, religion, disability, sexual orientation or other status. As such, policies and programmes should be tailored to address them in order to be relevant and effective.
- ◆ Initiatives should be informed by comprehensive research and analysis regarding the specific context of violence against women and girls (forms, settings, groups affected) and the different variables that affect a particular group's vulnerability to violence. Such information and data should guide the design of policies and interventions.
- ◆ Programme design should also be informed by an understanding of the distinct contexts in which violence against women and girls occurs throughout the life cycle from before birth through old age, with interventions tailored accordingly to address the specific forms of violence affecting different age groups and appropriately support the needs of survivors.
- ◆ Interventions should consider national, sub-national and local variations in regards to the nature of violence, the policy context and the extent to which actions are implemented to address the violence. For example, where national legal and policy frameworks are underdeveloped, advocacy to raise awareness and public commitment to address the issue is critical. However, in countries where legal reforms have been established, the advocacy efforts may prioritize implementation and monitoring of existing laws and policies.
- ◆ Programmes should seek to identify and equally address less documented forms of violence that may affect particularly marginalized groups within the population, such as domestic workers, adolescent girls or communities affected by conflict. These groups may be more vulnerable to violence and lack access to health care, legal assistance, economic opportunities and other resources critical to addressing an abusive situation. Given their peripheral social status, these sub-groups of women

and girls face issues that are often less visible in public and policy agendas. For example, post-conflict demobilization processes should consider the distinct forms of violence experienced by women and girl soldiers, and develop tailored interventions that address their specific reintegration needs.

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## 6.7 CASE STUDY

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Within today's workforce we can observe the extensive use of cross functional, heterogeneous teams designed to produce creative solutions to business problems, and the increased reliance on non-traditional workforce talent. This clearly demonstrates that diversity management has become a critical aspect of operating business. Diversity integration requires a long-term commitment and the payback is often not as tangible or predictable as say investing in new product development. However, a competitive edge can be gained by optimising the people resource of the organization. A critical challenge for senior management today is to turn cultural diversity into a differentiating advantage in an increasingly competitive global marketplace. Human resource executives must create a clear, compelling business case for diversity, linked to the company's strategic business objectives. Business reasons for managing diversity include: Cost savings - higher turnover costs (dissatisfied employees leaving the company), higher absenteeism rates and possible lawsuits on sexual, race and age discrimination. Winning the competition for talent - companies must attract, retain and promote excellent employees from different demographic groups. Companies cited as the best places to work for women and minorities have reported an increased inflow of applications. 'If we are going to have the best and the brightest to come and help us solve our client solutions, we need people who have perspectives from the very perspectives and vantage points that our clients come from and to have those people and have again the best and the brightest,' Improved marketplace understanding - your workforce should reflect your consumer base. 'mimics our very diverse client backgrounds and client markets that we're operating in'. Enhanced creativity and increased quality of team problem-solving - research shows that heterogeneous teams produce more innovative solutions to problems. Societal expectations 'we have some expectations that business and the way business is done is going to have a diverse representation. That's a question that we are asked every time we go to win new business, is- what does our workforce look like?', A diverse workforce with established customer relationships is an example of such a difficult to imitate resource. A diverse and multicultural workforce can deliver sustainable competitive advantage because it is difficult to imitate, creative and mirrors the marketplace and therefore better able to understand worldwide customer needs. Not only are there

economic arguments for the development of a multicultural organization but social arguments suggest that it is the right and responsible way to manage the international organization - in compliance with the CSR principles. There are however significant costs to manage diversity : A multicultural organization is both difficult and costly to manage and has the potential for negative outcomes. It is therefore important for international organizations to understand how people from different social and cultural groups behave, interact and perceive the world. Employees of the international organization and its affiliates must learn to work together productively; furthermore, employees must understand how to do business with entities located throughout their supply chain; the international organization must understand the role of cultural variables in determining how work is carried out in different countries and how their outputs (products and services) may need to be adapted for differing customer tastes worldwide. In short, the international organization and its human resource must learn how to manage difference. With Globalization comes increased mobility for workers and organizations. As a consequence, many international organizations and their subsidiaries or operating units have become increasingly diverse. To capitalize on diversity benefits and comply with diversity laws whilst minimizing the potential costs, leaders are advised to create multicultural organizations. Many of the associated challenges can be presented as integration and communication problems

**Questions**

- 1. Abigail asks why bother with diversity? Drawing on comments made in the film clip and your wider readings and experiences, detail the arguments (pragmatic and ethical) for and against diversity in business

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**7.8 NOTES**

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## **7.9 SUMMARY**

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This unit has presented in brief aspects like meaning of locally responsive, determinants of locally responsiveness, root of locally responsiveness, understanding diversity and responding to diversity.

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## **7.10 KEY WORDS**

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Local responsiveness, root of local responsiveness, understanding diversity and responding diversity. In addition to above the unit used other key words viz., race, ethnicity, gender, sexual orientation, socio-economic status, culture, age, physical ability and religious, political and other beliefs.

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## **7.11 SELF ASSESSMENT QUESTIONS**

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1. What is local responsiveness? Explain
2. What are the determinants of local responsiveness? Describe
3. Write an analytical note on root of local responsiveness
4. What are the possible ways to respond diversity? Explain

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## **7.12 REFERENCES**

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## **UNIT -8 : CHALLENGES OF LOCALIZATION**

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### **Structure :**

- 8.0 Objectives
- 8.1 Introduction
- 8.2 Meaning of Localization
- 8.3 Challenges of Localization
- 8.4 Case Study
- 8.5 Notes
- 8.6 Summary
- 8.7 Key words
- 8.8 Self Assessment Questions
- 8.9 Self Assessment questions

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## **8.0 OBJECTIVES**

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After studying this unit, you should be able to;

- Understand about meaning of localization
- Examine the challenges of localization at different angles

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## **8.1 INTRODUCTION**

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Today's marketers have more ways to reach prospects and customers than ever before. CEO's and CFO's are demanding that marketers squeeze more and more results from every marketing dollar spent. Most companies are dealing with prospects and customers whose interests are different. The challenge for marketers is to create marketing messages and materials that will be relevant to a diverse group of potential buyers. Marketers recognize that customizing marketing materials for specific audiences will increase relevancy and improve marketing effectiveness. One proven technique for increasing marketing relevance and effectiveness is market localization. Localized marketing is the practice of customizing materials for local audiences. Localized marketing has traditionally been a cumbersome, time-consuming and costly process. But now, technologies are making marketing to local audiences both practical and affordable. With local marketing automation, national brands provide a web-based marketing portal or marketing resource centre for local marketing success. Web-based portals automate the process of ordering, producing and fulfilling marketing materials. Through an online catalogue, sales people, brokers, branch locations or channel partners can log into a secure portal, select the desired materials and submit the order.

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## **8.2 MEANING OF LOCALIZATION**

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Localization is the process of adapting a product or content to a specific locale or market. Translation is only one of several elements of the localization process.

In addition to translation, the localization process may also include: Adapting graphics to target markets.

In other words the process of organizing business or industry so that its main activities happen in local areas rather than national or international

However, the followings are the important advantages of localization

- ◆ Labour gets trained. Dexterity and skill are handed down from one generation of labourers to the next. A large body of trained labour is built up.



- ◆ A Large Market for a Certain type of labour is developed in the locality. Labour of this this type can migrate to that locality with almost a sure guarantee of employment. Employers in search of labour of this type can also find it there.
- ◆ Financial facilities grow up. Banks are started there. The industry enjoys the benefit of cheap credit facilities.
- ◆ Suitable means of communication and transport get developed. this is a great advantage to the localised industry.
- ◆ There is a stimulus for the starting of subsidiary or supplementary industries, thus providing a wider range of employment for labour and capital. The by-products are put to economical uses.
- ◆ The reputation of a locality for particular goods widens the market. Orders flow in from distant places. the market is thus assured. the industry can have a steady growth.
- ◆ Technical journals come to be published. Training and research institutes are established from which the industrialists benefit a great deal.
- ◆ It brings prosperity to the locality. It provides employment and adds to the income of the people.
- ◆ Collective action is rendered possible. The industrialists organise themselves in associations to safeguard their common interests, and so do the labourers.
- ◆ Several improvements are made in the industry, because there is opportunity for exchange of ideas. There is healthy rivalry. All this is beneficial for the industry.

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### **8.3 CHALLENGES OF LOCALIZATION**

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The localization is not a bed of rose, it has many hurdles, these are as follows.

- ◆ Dependence on the main industry is risky. A depression in that industry is bound to spell disaster to the whole locality. It is not wise to place all one's eggs in one basket.
- ◆ Scope of employment is restricted. Employment is available for one type of labour only. In a centre, where there is a greater variety of employment, the entire family of a worker may find employment. But here only a few of them will get work so that the total family earnings remain low.

- ◆ Over-specialisation leads to dependence on other centres which proves very dangerous in times of war. We may not be able to import the necessary materials and machinery. Dependence on foreign markets for the disposal of goods is also risky.
- ◆ The dishonesty of a few manufacturers brings into disrepute all the rest. The products of the locality get a bad name, and even honest manu-facturers suffer.
- ◆ Labour tends to lose its mobility for obvious reasons. They have to be content to remain where they are. There are few other openings in the locality.
- ◆ It leads to over-congestion. This seriously tells upon the health and efficiency of workers and their children. This is what has happened in Bombay, Calcutta, Kanpur, etc.
- ◆ Risk of bombing- Bombing during a war may paralyse the industry. Hence there is a lack of security. The big industrial cities are the usual targets of the enemy attack.

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## **8.4 CASE STUDY**

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In 2008, Nokia, the global leader in mobile handset manufacturing faced difficulties in capturing a sizeable market share in the US. Nokia's profit margins reduced year after year in US since 2004. One often cited reason was its unwillingness to customize according to the preferences of the markets there. As the US telecommunication industry is one of the world's biggest telecommunication markets, Nokia had to establish itself in this market to retain its global No.1 position. The case study outlines the US telecommunication industry structure and the obstacles Nokia faced in finding a foothold in this marketplace. It has grabbed a 40% global market share; but in the US it has been able to rake it up to just 10%.

### **Questions**

1. What possible steps should Nokia take to capture a sizeable portion of US market share? What challenges does it face?
2. What prevents it from having a formidable market position in the US?
3. What are the consequences if it does?



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## **8.6 SUMMARY**

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Localization is the execution procedure. The right approach to the project is bound to result in the development of a successful product. On the other hand, any attempt to execute the project without careful preparation is likely to have a negative impact on costs, deadlines or product quality, and performance of organization. However, this unit described challenges of localization.

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## **8.7 KEY WORDS**

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Localization, Translation, locality, Challenges, CEO's and CFO

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## **8.8 SELF ASSESSMENT QUESTIONS**

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1. What do you mean by localization? Explain its features
2. Explain the advantages of localization
3. Describe in detail the challenges of localization

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## **8.9 REFERENCES**

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1. Bae, J., Chen, S. & Lawler, J. (1998). 'Variations in HRM in Asian countries: MNC home country and host country effects', *International Journal of Human Resource Management*,
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**MODULE- III**  
**RECRUITMENT, SELECTION AND STAFFING IN**  
**INTERNATIONAL CONTEXT**

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**UNIT -9 : RECRUITMENT OF MANAGERS**

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**Structure :**

- 9.0 Objectives
- 9.1 Introduction
- 9.2 Meaning of International Manager
- 9.3 An overview of Parent Country National
- 9.4 An appraisal of Third Country National
- 9.5 An overview of Host Country National
- 9.6 Case Study
- 9.7 Notes
- 9.8 Summary
- 9.9 Key words
- 9.10 Self Assessment Questions
- 9.11 References

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## 9.0 OBJECTIVES

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After studying this unit, you should be able to;

- Define international manager
- Describe the parent country national, third country nationals and host country nationals

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## 9.1 INTRODUCTION

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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 (TNCs) 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. However, international recruitment and selection is a one of the important task of international human resource manger and it facilitates hiring the right number of human beings with required competencies. He or she must not only select resources with the right skills, but also employees who can fit-in with the organization's culture.

Many multinational companies not just hiring the people but they consider skills, qualifications, culture of the person before going to select the person for particular work it aims is to hire employees globally whose styles, beliefs and value systems are consistent with those of the organization.

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## 9.2 MEANING OF INTERNATIONAL MANAGER

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An international manager is a broad title for a manager who oversees a company's global operations. In some instances, an international manager is responsible for all of a company's foreign business.

In other words international manager is characterised by the nature of the work he or she does, typically within an organisation with global operations. He or she has the capability to manage amid the complexity of business that is conducted across divergent cultures and time zones. However, an international manager is responsible for all of a company's foreign business. Large companies may employ multiple departmental global

managers, such as those in charge of international sales, cultural marketing, or overseas manufacturing.

An international manager must have a keen understanding of the company's needs abroad as well as the cultural, political and operational challenges of foreign markets and available opportunities.

In addition to above International managers needed to plan a company's global strategy, often hiring and delegating authority to implement new policies and practices. International managers who oversee specific departments in sales, marketing or finance are responsible for their respective division's foreign operation. Departmental managers may report to a company executive or deliberate with other global management staff to determine business methods according to ethical and legal standards.

International managers often manage several employees or divisions existing in one or more geographical locations. While human resource duties may or may not fall within a manager's job requirements, it is the manager's responsibility to ensure employees and business practices conform to country, regional and international regulations. Decision-making, communication and leadership skills are essential for the success of international management staff.

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### **9.3 AN OVERVIEW OF PARENT COUNTRY NATIONAL**

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**In case of** Parent country national 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 follow this approach. Sony Corporation of America, a wholly owned subsidiary of Sony Corporation, handles local HR issues, but top executives at the organization's operations across the US are Japanese managers, from the company's Japanese home office. Hiring PCNs has both advantages as well as disadvantages. Among the advantages are: Familiarity with home country's goals and objectives and easy organizational control and coordination. Disadvantages include difficulty in responding to local cultural needs and denial of promotional opportunities to locals.

#### **Advantages of Home Country National**

1. Ensure proper linkages between foreign subsidiary and the headquarter
2. Knowledgeable about how the parent company operates.
3. Familiarity with the home office goals, objectives, policies and practices



4. Easy organizational control and coordination.
5. Promising managers are given international exposure. PCNs are the best people for international assignments because of special skills and experiences.

### **Disadvantages of Home Country National**

1. Expensive, since organizations are responsible for costs related to relocation, cost-of-living, special schooling, family benefit packages, etc.,
2. Lack of awareness about the culture of the country may lead to loss of contracts, or premature recall of expatriate.
3. Difficulty in adapting to the foreign language and the socio-economic, political, cultural and legal environment.
4. Excessive cost of selecting training, and maintaining expatriate managers and their families abroad.
5. Promotional opportunities for HCNs are limited.
6. PCNs may impose an inappropriate HQ style compensation for PCNs and HCNs may differ concerning unemployed spouses.

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## **9.4 AN APPRAISAL OF THIRD COUNTRY NATIONAL**

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Third Country National is a term often used in the context of migration referring to individuals who are in transit and/or applying for visas in countries that are not their country of origin in order to go to destination countries that is likewise not their country of origin.

Third Country National (TCN) is a term often used in the context of migration, referring to individuals who are in transit and/or applying for visas in countries that are not their country of origin (i.e. country of transit), in order to go to destination countries that is likewise not their country of origin.

### **Advantages**

1. Have substantial international experience.
2. TCNs may be better informed than PCNs about the countries of assignment.
3. TCNs are truly international managers.
4. Salary and benefit requirement may be lower than HCNs
5. TCNs may be better informed than PCNs about host country environment

## **Disadvantages**

1. Are in high demand, but short supply.
2. Host country government may resent hiring TCNs.
3. TCNs may not want to return to their own countries after assignment.
4. Transfers must consider possible national animosities (India & Pakistan)
5. The host government may resent hiring of TCNs
6. TCNs may not want to return to their home country after assignment

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## **9.5 AN OVERVIEW OF HOST COUNTRY NATIONAL**

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A *host-country national* (HCN) is an employee who is a citizen of a *country* in which an organization's branch or plant is located, but the organization is headquartered in another *country*. An impediment to hiring HCNs is that such employees may not understand the parent company's culture.

In other words host-country nationals, these employees are hired for jobs in their own country. For example, a United Kingdom citizen who is employed at Coca Cola's U.K. subsidiary is a local national.

In an international firm, an HCN is a person whose nationality is the same as that of the *country* in which the company is operating: for example, a UK manager working for a UK-based subsidiary of a Japanese company

## **Advantages**

1. Familiar with the local norms and culture.
2. Familiarity with the socio-economic, political and legal environment and with business practices in the host country.
3. Lower cost incurred in hiring them as compared to PCNs and TCNs.
4. Promotional opportunities for locals and consequently, their motivation and commitment.
5. Responds effectively to the host country's demands for localization of the subsidiary's operations.
6. Languages and other barriers are eliminated.
7. Continuity of management improves since HCNs stay longer in positions
8. Salary and benefit requirements may be lower than of PCNs.

## **Disadvantages**

1. May not appreciate the needs of the headquarters.
2. Difficulty in exercising effective control over the subsidiary's operations.
3. Communication difficulties in dealing with home-office personnel.
4. Lack of opportunities for the home country's nationals to gain international and cross cultural experience.
5. HCNs have limited career opportunity outside the subsidiary.
6. Hiring of HCN may encourage a federation of national's rather than global unit.

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## **9.6 CASE STUDY**

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Alton Towers was voted the UK's number one theme park again this year. It is located in the heart of England in Staffordshire, where there is easy access from both the M1 and M6, although access through the village of Alton towards the site is difficult. The roads are narrow and there are twisting bends, which coaches find difficult to manoeuvre round. The site evolved from being a traditional English garden attraction in the 1950s to an exciting leisure park after a company decision was made in the 1980s to convert the gardens to an American-style theme park. The aim was to attract more visitors. The idea was a success and over the years the park has been constantly updated with increasingly bigger and more exciting rides and spectacular attractions. Alton Towers set out to be the market leader from the beginning. It boasts the best attractions in the UK. It was the first to have the largest flume in the world in 1982.

The company was taken over by the Tussauds Group in 1990. Changes were made to existing attractions and layout of the park. Other changes included a short walk towards Thunder Valley, leading to the Haunted House.

In 1994 the most spectacular ride ever seen in the UK was introduced. This was Nemesis – an inverted roller coaster. The thrilling suspended ride – Oblivion – was opened in 1998. This is a vertical drop roller coaster. The latest addition to the park in 2000 is the Hex – the legend of the Towers. This is a disorientating 'haunted' swing. These 'white-knuckle' rides are now located in the X-Sector. In 1996 a £10m themed hotel on the outskirts of the park was opened. Participants in the Haunted House and X-Sector rides are photographed as they take part. These photographs are ready for viewing and purchasing at the end of the rides.

There is an admission charge to the park, but once inside the park all the rides and attractions are free. Ticket prices are differentiated and include Peak and Off-Peak, Day Tickets, Family Tickets and Season Tickets. Visitors to the park can choose to eat at a variety of restaurants dotted all over the park. Each ride has its own souvenir shop attached and there are also gift shops where Alton Towers merchandise can be purchased at prices to suit all pockets. . Alton Towers is open every day to visitors from around 24 March until 31 October each year. Every year 2.7 million visitors visit the park. The volume of visitors in the summer means that long queues can form, although a ticket reservation process is in operation for the most popular rides. Alton Towers is not seeking to increase the number of visitors passing through the gates, but to encourage people to spend more on food and merchandise and to come back again.

**Questions**

1. Explain how Alton Towers kept ahead of the competition in the years from 1982 until present.
2. Explain the benefits to Alton Towers of having restaurants and Souvenir shops dotted around the site?
3. Why does Alton Towers use differentiated prices for their admission tickets?
4. Explain how Alton Towers can use field research and desk research to find out if they are achieving their objectives.

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**9.7 NOTES**

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## **9.8 SUMMARY**

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The international manager needed skills, like ability to work in international teams, adaptability to new situations, sensitivity to different cultures and relational skills. The manager should be self-reliant and have an open, non-judgmental personality. However, this unit presented detail on aspects like international manager, an overview of parent country national, an appraisal of third country national and an overview of host country national.

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## **9.9 KEY WORDS**

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International manager, host country, third country and parent country, global strategy, adoptability and hiring etc.

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## **9.10 SELF ASSESSMENT QUESTIONS**

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1. Who are the international managers? Explain in detail
2. Explain detail on host country national and their merits and demerits
3. What are the advantages and disadvantages of host country national? Explain
4. Write an analytical note on third country national

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## **9.11 REFERENCES**

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## **UNIT-10 : DIFFERENT APPROACHES TO MULTINATIONAL STAFFING DECISIONS**

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### **Structure :**

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Advantages and disadvantages of different selection Methods
- 10.3 Different Approaches to multinational staffing
- 10.4 Case Study
- 10.5 Notes
- 10.6 Summary
- 10.7 Key words
- 10.8 Self Assessment Questions
- 10.9 References

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## **10.0 OBJECTIVES**

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After studying this unit, you should be able to;

- Explain the advantages and disadvantages of different selection Methods
- Understand different approaches to multinational staffing

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## **10.1 INTRODUCTION**

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In staffing in international business, HR managers must determine when or where to expatriate. Expatriate workers are frequently assigned to key positions in overseas operations. Human resource managers must also decide on the issue of compensation. The compensation of expatriate workers must be examined along with compensation of local workers and the compensation of workers in the home country. Differences in compensation packages have significant implications on staffing success, expatriate performance and business performance. HR managers must also address the issue of repatriation. Repatriation happens when the worker needs to come back to the home country, usually to continue working for the company. Repatriation also happens when the expatriate worker retires. These issues have significant effects on the perspectives and performance of expatriate workers and local workers, and the effectiveness of HRM in staffing.

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## **10.2 ADVANTAGES AND DISADVANTAGES OF DIFFERENT SELECTION METHODS**

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The phenomenon called expatriate failure, and the multifaceted nature of international assignments, and why developing appropriate selection criteria have become a critical IHRM issue. It should be noted that selection is a two-way process between the individual and the organization. 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. It is a challenge for those responsible for selecting staff for international assignments to determine appropriate selection criteria. However, the following explanation explains the merits and demerits of different selection methods.

### **Selection of Employees from Domestically – Advantages**

When MNCs recruit and select workers domestically to work abroad, they have a few key advantages. First, promoting internal employees to head up foreign offices may



offer the best chance to maintain corporate philosophy and culture. Recruiting and selecting from a local talent pool also ensures consistency of language throughout the company, which may reduce communication errors.

### **Selection of Employees from Domestically - Drawbacks**

Recruiting for international postings at home or moving current employees abroad is sometimes unpopular in foreign offices. In fact, some governments block U.S. companies from entering their markets unless they agree to hire local talent and use local suppliers. U.S. employees working in places like India and China typically don't understand conditions there as well as workers native to those nations. Ignoring this factor can lead to poor market segmentation and cultural faux pas in business operations.

### **Recruitment of Employees Locally- Advantages**

A localized approach to global expansion is usually viewed more favorably by the host nation. This is especially true regarding expansion into a country where the U.S. and its culture aren't viewed positively. Hiring from the local talent pool also offers a better chance to establish a close connection between local workers and targeted customers. You may also gain favor with local officials who feel more comfortable interacting with people from their own country.

### **Recruitment of Employees Locally - Drawbacks**

It's often more expensive to recruit and select with a localized strategy. You must typically send company leaders into each new market to help develop the territory and hire managers and staff. Establishing a consistent global corporate culture is more difficult when you have employees from varying national backgrounds working across the company. You may be able to overcome this drawback by focusing on a few core values. Decide exactly what skills you are looking for in an employee and tailor your interviewing and selection process to hone in on people with those skills. Also, look at what strengths your current team is missing. If you have five people who are great at written communications but struggle presenting to a large audience, select a person who can help fill that gap.

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## **10.3 DIFFERENT APPROACHES TO MULTINATIONAL STAFFING**

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There are three different sources of employees with whom an international company can be staffed.

First, the company can send employees from its home country, which is referred to as expatriates, expats or home country nationals.

Second, it can recruit host country nationals and third, it can hire third country nationals who are natives of a country other than the home country or the host country.

When international expansion of the company is in its infancy, management is heavily relying on local staff, as it is extremely respondent to local customs and concerns. As the company's international presence grows, home-country managers are frequently expatriated to stabilize operational activities. At later stages of internationalization, different companies use different staffing strategies; however, most employ some combination of host-country, home-country, and third-country nationals in the top management team. However, the staffing policies of multinational companies can be divided into four categories.

### **1. Ethnocentric Staffing**

The ethnocentric staffing policy refers to the strategy of a multinational company to employ managers for key positions from the parent headquarters instead of employing local staff. In other way it involves staffing the most important positions in foreign subsidiaries with expatriates from the company's home country. Expatriates are often believed to better represent the interests of the home office and ensure that the foreign offices are aligned with home headquarters. In fact, many expatriates are selected from the company's current employees and are simply transferred to a foreign subsidiary.

#### **Advantages disadvantages of ethnocentric staffing**

The obvious advantage to ethnocentric staffing is the alignment of interests and perspective of the home office with all foreign subsidiaries abroad. Communication is also easier because there should be no language and cultural barriers. The company may also be able to transfer employees with a clear performance record that will provide some level of predictability.

On the other hand, you can lose local perspective and insights that local employees can provide that may help overcome unique hurdles in each foreign office. Moreover, hiring expatriates tends to be expensive compared to hiring locally. Additionally, a high ratio of expatriates may create local resentment at foreign subsidiaries, which may hurt morale.

## **2. Polycentric Staffing**

The polycentric staffing policy describes a multinational's approach of recruiting host country nationals to manage subsidiaries in their own country. There is little or no flow of personnel between the various countries.

In other words a company will hire host-country nationals for positions in the company from mail room clerks all the way up to the executive suites. Polycentric staffing is particularly feasible in developed countries, such as European countries, Canada, Australia and Japan, where highly educated and trained employees can be easily located.

### **Advantages**

- ◆ Language barriers as well as adjustment problems of expatriates and their families are eliminated.
- ◆ Allows continuity of management within the host country.
- ◆ The employment of HCNs is generally less expensive.
- ◆ No tension between the locals and the "watchdogs" sent from headquarters occurs.
- ◆ Enhances the moral and career opportunities of local staff. Supported by host country governments.

### **Disadvantages**

- ◆ Difficulty of achieving effective communication between HCN managers at subsidiary level and PCN managers at corporate headquarters.
- ◆ Difficulties in exercising effective control over the subsidiaries that arise when a multinational firm becomes a loose federation of independent national units with weak links to corporate headquarters.
- ◆ Difficulty of coordinating the activities between headquarters and subsidiaries because of a lack of "boundary persons".
- ◆ There is a problem concerning the career paths of HCN and PCN managers as both have very limited opportunities to gain experience abroad outside of their own country
- ◆ Lack of international experience is a liability in an increasingly competitive environment.

### **3. Geocentric Staffing**

The geocentric policy approach to staffing assigns job positions to any person best suited for the position, regardless of the employee's background, culture or country of origin. The main advantage of this staffing policy approach is that it is highly flexible. It can increase the firm's cultural knowledge about the different markets and countries. However, a disadvantage of this staffing policy approach is that it could be difficult to apply. Immigration policies, costs of worker relocation and diversity management create pressure on HR management.

Geocentric staffing refers to the choices that multinational corporations make regarding the staffing of their subsidiaries, whether they use parent country nationals (employees from the home country), host country nationals (employees from the subsidiary location), third country nationals (employees from a country other than the home or host country) or some mix thereof.

#### **Advantages of Geocentric Staffing**

- ◆ It enables a multinational firm to develop a pool of senior international managers (development of a network of persons with international experience and contacts across borders).
- ◆ It reduces the tendency of national identification of managers with subsidiary units of the organization.

#### **Dis -Advantages of Geocentric Staffing**

- ◆ It is increasingly the case that many host countries use their immigration laws to require the employment of local nationals (HCNs) where possible.
- ◆ It difficult to implement because of increased training, compensation and relocation costs.
- ◆ The successful implementation of a geocentric staffing policy requires a highly centralized control of the staffing process and the reduced autonomy of subsidiary management may be resented.
- ◆ A highly sophisticated personnel planning system is needed that allows worldwide matching processes between vacant positions and persons with adequate qualification profiles.

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## 10.4 CASE STUDY

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**Case I-** Larry, a high school kid looking for a summer job, was hired as a cook at a nearby restaurant. Larry had no experience working in kitchens, but the supervisor who hired him, explained that it wasn't necessary, because they would train him. On Larry's first day, he was paired with a Senior Line Cook by the name of Tyler.

Tyler wasn't especially thrilled with the idea of having to train a new guy on the busiest night of the week, and expressed his concerns to the manager. "You're our most senior employee, so that makes you the most qualified person to do the training." A frustrated Tyler didn't say much after that – and aside from giving Larry a nod of acknowledgement, his only words to him were "watch, and stay out of my way." By the time the main dinner rush hit, the entire kitchen line was bustling with activity and Tyler was doing his best to call orders, time out bills, and cook all at the same time.

As more and more orders came in, the stress level in the kitchen had increased dramatically. It was at this point Tyler turned to Larry and barked, "I need you to run to the fridge and get me more hamburger meat!" Afraid to ask any questions, Larry quickly turned to look for the fridge, and as instructed, "ran" through the kitchen line to get more meat. A cook, unaware that Larry was coming through, turned to put up a dish, and collided with Larry. He never heard him coming.

### Questions

- ◆ Identify and list all the things that went wrong on Larry's first day
- ◆ When selecting an employee to do training, how much does seniority factor in on your decision, and why?
- ◆ If an employee is good at their job, does that automatically make them a good trainer, and why?
- ◆ As a group, come up with 5 top character traits you would look for in a qualified trainer.
- ◆ When organising a new employee's training plan, what factors should you consider when scheduling the shifts.

### Case II

Goliath Quarry Products (GQP) was formed in the late 1960's in the UK to supply quarry equipment that required strong, robust machinery capable of crushing and screening 6000 tonnes of quarry rocks per day. As the market developed GQP became a leading

global supplier. GQP’s production facilities expanded from one factory site to four factory sites in the UK.

The main focus for GQP became new product development and ensuring that it maintained the quality and reliability synonymous with its brand.

In the last decade new low-cost competitors have entered the market and are starting to reduce GQP’s market share. GQP needs to concentrate on costs if it is going to sustain its market share leadership. GQP directors insist that it must maintain its brand image but achieve the same quality product at a lower cost. This may involve the use of low-cost country sourcing.

Areas of concern for low-cost country sourcing are as follows:

- Poor quality product
- The passing of title
- Initial prices increasing once a commitment to supply has been made
- Orders not shipping on time and ‘premium’ transport arrangements having to be made
- Low-cost country suppliers subcontracting work and GQP not being aware that they have done this. This may result in poor quality

**Questions**

- ◆ What are the strategies the GQP needed to compete with low cost strategies companies?
- ◆ Due to entering new competitors GQP market share comedown so, what action need to take by GQP to survival in same line of business.

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**10.5 NOTES**

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## **10.6 SUMMARY**

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International staffing policy concerned with selecting employees who have the skills required to perform particular jobs. However, this unit covered aspects like advantages and disadvantages of different selection methods and approaches for international staffing.

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## **10.7 KEY WORDS**

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Corporate philosophy, advantages and disadvantages, IHRM, local talent, cultural faux, Ethnocentric Staffing, Polycentric Staffing and Geocentric Staffing.

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## **10.8 SELF ASSESSMENT QUESTIONS**

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1. What are the advantages and disadvantages of different selection method?
2. Explain different approaches of international staffing
3. Write a note on advantages and disadvantages of Geocentric Staffing.
4. How does Ethnocentric Staffing method is differ from Polycentric staffing method? Explain.

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## **UNIT -11 : RECRUITMENT METHODS**

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### **Structure :**

- 11.0 Objectives
- 11.1 Introduction
- 11.2 Recruitment methods
- 11.3 Using Heads Hunter
- 11.4 Cross National Advertising
- 11.5 E-recruitment
- 11.6 Case Study
- 11.7 Notes
- 11.8 Summary
- 11.9 Key words
- 11.10 Self Assessment Questions
- 11.11 References

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## 11.0 OBJECTIVES

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After studying this unit, you should be able to;

- Define recruitment
- Explain the recruitment methods
- Explain the merits and demerits of recruitment methods

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## 11.1 INTRODUCTION

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Acquiring employees involves recruitment and selection at the parent country and overseas entities. It is also concerned with managing the international mobile workforce hired in one locale and relocated to others for a variety of reasons. MNCs with overseas expansion strategy are prompted to find the right talent in meeting employment needs wherever they decide to operate from the available resource buffer.

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## 11.2 RECRUITMENT METHODS

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International recruitment and selection is a one of the important task of international human resource manger and it facilitates hiring the right number of human beings with required competencies. He or she must not only select resources with the right skills, but also employees who can fit-in with the organization's culture. Many multinational companies not just hiring the people but they consider skills, qualifications, culture of the person before going to select the person for particular work it aims is to hire employees globally whose styles, beliefs and value systems are consistent with those of the organization. However, recruitment is defined as searching for and obtaining potential candidates in sufficient numbers and quality so that the organization can select the most appropriate person for particular job. Selection is the process of gathering information for the purposes of evaluating and deciding who should be employed in particular jobs.

The followings are the important source or methods of recruitment by the MNCs.

### **Internal Recruiting**

An internal source of recruitment involves recruiting candidates internally. Employees currently working in their own company are departed to other department or higher position. If the employees' performance are excellent and up to the mark, they are given chance to occupy higher level from the current post. If extra skills required, organization are ready to provide training. This is one of the easiest ways of selecting candidates as the performance of their work already known by management.

## **Methods of Internal Recruitment**

- ◆ Selecting top talents within an organization to higher level
- ◆ Promotions
- ◆ Internal Advertisement
- ◆ Temporary employees to contractual period
- ◆ Contract employees to temporary
- ◆ Temporary employees to permanent
- ◆ Retired employees for freelancer position

## **Advantage of Internal Recruitment**

- ◆ Easy method
- ◆ Less time consuming
- ◆ Deep interview not required
- ◆ Promoting to high position increases identity of employees thereby long stay in the company.
- ◆ Competition among employees to occupy high level when co-employee gets promoted.

## **Disadvantage of Internal Recruitment**

- ◆ Discrimination may exist in respective to caste, language, religion for promotion.
- ◆ Dissatisfied co-employee may quit the position because of jealous or partiality
- ◆ No opportunities for external employees.
- ◆ Lack of innovative ability

## **External resources of Manpower recruitment –**

External source involves recruiting candidates externally for better performance. External employees always feel young and innovative for new companies, more active enough to find business problems and fix it. Though recruiting external candidates might be tougher but it has more positive effect on business compared to internal source. However the followings are the external sources of manpower recruitment.

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## 11.2 USING HEADS HUNTER

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The most valuable resource in today's fast-paced corporate world are people. The present recruitment scenario is witness to the expertise of Jon consultants better known as head-hunters. Head-hunters have established themselves as an important link in the employment chain. Various companies and firms have chosen to enhance their human resource by using the expertise that head-hunters bring to recruitment. The boom in the headhunting industry can be attributed to the head-hunter's superior understanding of the industry and market norms, job profiles, people skills etc. By virtue of their aggressive networking and people skills, head-hunters today have created a niche for themselves. Increasing staff turnover rates have served to propel the headhunting industry to a high demand, high delivery industry. So to join or start a much-needed service like this what does one need to be successful. The pointers below will help in better understanding of the do's and don'ts of the business. It is imperative to have an in-depth specialised knowledge of the industry, the job requirements, work culture, HR policies etc. This is the reason most head-hunters work within well-defined niches and offer their services in specialised industries. A good grasp of the various problems and issues that plague the market, is essential

Every new search assignment that a head-hunter takes up involves sifting the grain from the chaff. In other words, it calls for pre-screening numerous candidates for a job. This is where the head-hunter's ability to probe beyond the superficial, comes to the fore. Piloting the right person to the right job calls for a specialised screening of the aptitude and skills of the candidates to ensure the selection of high-value performance.

### **Factors need to Consider**

Several factors need to be considered. The head-hunter takes into consideration the candidate's values, job preferences, skills, background, family commitments etc. These are the guiding parameters by which the head-hunter analyses the candidate's suitability to the requirements of the recruiter. The main objective should not be to generate short-term employment but to bridge the demand-supply gap. Ethical headhunting calls for a sense of integrity.

The head-hunter should guide the candidates in interview handling skills.

The head-hunter plays an important role in negotiations regarding salary and other benefits. A head-hunter stakes his reputation on the competencies of his candidate. A head-hunter's responsibility does not merely end once the candidate is hired. Good follow up with the company is a value-added service that can give a head-hunter an edge and help in striking a long-term relationship with the company. With a clear understanding of the above, a head-

hunter can be tuned to success in the corporate scenario. The head-hunter charges a commission from the company per hire but also owes loyalty to the candidate. Hence, it is vital for him to help the candidate find a fulfilling and rewarding job. The intense competition in the recruitment procedures has led to several head-hunters working round the clock. To sum up, it is not only about skills, but also about being in the right place at the right time. In other words, a true head-hunter is one who finds the right peg for the right hole.

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### **11.3 CROSS NATIONAL ADVERTISING**

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Cross national advertising is also a business activity involving advertisers and the advertising agencies that create ads and buy media in different countries.

Cross-national advertising is a strategy used by MNCS to market a business using various types of media at international level. Through this the organization to create a cohesive marketing campaign for recruitment of manpower across the world. Now the world is a global village and as part of globalization, labour migration is more common and accepted all over the world. At present many companies seek to carry out cross border when they recruiting senior staffs. The earlier studies mentioned that the rising apply of advertising such as targeted outdoor poster sites -airport lounges, airline magazines and journey to work routes. Simultaneously, international, publications like as the economist magazines, The wall street journal's regularly represents some advertisement for high level posts in many organisations all over the world.

Although that advertising should consider cultural differences, it may well be the case that the valuable targeting of such advertisement ensures that they are seen more or less totally by people. They are more used to, and accepting of, these multi-cultural messages.

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### **11.4 E-RECRUITMENT**

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E-Recruitment includes the entire process of finding the prospective candidates, assessing, interviewing and hiring them, as per the job requirement. Through this, the recruitment is done more effectively and efficiently. Generally, the job vacancies are advertised on the world wide web (www), where the applicants attach their CV or resume, to get recognized by the potential recruiters or the employers.

The companies undertake their online promotional activities via their official websites, wherein the complete information about the corporation is enclosed. Through this information, the prospective candidate could decide whether to be a part of a firm or not. Thus, the firm's official website is considered to be an essential element of E-Recruitment.

Thus it is clear that from the above e-recruitment is method of recruitment of people for different positions through electronic resources, typically the internet but also HR software, to guide or assist the hiring process in order to reduce the administrative and financial burden of recruitment and gain access to a wider pool of talent. Much of e-recruitment centers on major job sites which categories open positions by location, industry and seniority. Businesses, or recruitment companies working on behalf of businesses, advertise open positions on their website sites and provide instructions for applicants to follow. The initial sift of applications will either be performed by the recruitment firm or the business.

### **Merits of E-recruitment**

In recent past the e-recruitment getting better position over period of time due to globalization.

#### **◆ Wide geographical reach**

Advertising online opens up a much wider candidate pool than advertising in print. This gives you a much better chance of finding the right candidate for the job. Note, however, this is only a benefit if sifting, sorting and grading tools are applied to the applications coming in. Otherwise you'll have hundreds to go through manually which becomes a liability. As we said, the advertising is only part of the effective online recruitment.

#### **◆ Speed**

Jobs posted online go live in literally minutes and candidates can - and do - respond immediately. HR Portal has a great statistic from one of its clients HFC Bank: from the vacancy appearing online to the candidate appearing in the interview room took just three hours. While this was an exception, it proves it can be done. For companies needing to recruit staff quickly to handle extra work, cover sickness, leave or other staff shortages, the option to advertise, select and appoint people within 48 hours is a huge bonus.

#### **◆ Lower Cost**

This may surprise you but technology in online recruitment is not expensive. By saving on time, design and print costs and targeting precisely the best sites for the best candidates, online recruitment is a very cost-effective option. Not only that, but the hours saved through automating the pre-selection process represent a considerable cost cut in terms of HR time needed to get candidates to the interview stage. Suddenly, HR staff have time to do more productive things.

### ◆ **Automating the Process**

The pre-selection process can be tailored to individual companies' needs. This way, you can sift and sort candidates who meet your exact needs. Not only does this save time it also results in a better quality of candidate reaching the interview stage having already established they meet certain key criteria. Automating the application process also gives a level playing field to all candidates - whether they come directly to your company's site, via a recruitment consultant or in response to a print advertisement. For many larger organisations, achieving consistency of handling candidates across many branches or regional offices can be a problem: online recruitment solves it.

### ◆ **Interaction with candidates**

Working online via websites and email is the way of the future. It's not just the youngsters who are logging on to find jobs either. Recent results from NORAS shows 35% of all users are over 35. It's quick, personal and direct. Questions are answered in seconds and information is immediately accessible. What better way to establish whether the candidate is right for you.

### **Demerits of e-recruitment**

The e-recruitment is not free from problems, it has many problems, the followings are the important problems of e-recruitment.

- ◆ Screening and checking the skill mapping and authenticity of millions of resumes is a problem and time consuming exercise for organizations.
- ◆ There is low Internet penetration, no access and lack of awareness of internet in many locations across India.
- ◆ Organizations cannot depend solely on the online recruitment methods.
- ◆ In India, the employers and the employees still prefer a face-to-face interaction rather than sending e-mails.

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## **11.5 CASE STUDY**

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In today's rapidly changing business environment, organizations have to respond quickly to requirements for people. Hence, it is important to have a well-defined recruitment policy in place, which can be executed effectively to get the best fits for the vacant positions. Selecting the wrong candidate or rejecting the right candidate could turn out to be costly mistakes for the organization. Selection is one area where the interference of external factors is minimal. Hence the HR department can use its discretion in framing its selection policy







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## 11.7 SUMMARY

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*Recruitment* is the process of finding candidates, reviewing applicant credentials, screening potential *employees*, and selecting *employees* for an organization. Effective *recruitment* results in an organization hiring *employees* who are skilled, experienced, and good fits with corporate culture. However, this unit covered aspects like methods of recruitments like Recruitment methods, Using Heads Hunter, Cross National Advertising and E-recruitment.

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## 11.8 KEY WORDS

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Recruitment, advertising, Head-hunter, cross national advertising and e-recruitment.

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## 11.9 SELF ASSESSMENT QUESTIONS

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1. What is internal recruitment? Explain merits and demerits
2. What are the external methods of recruitment? Explain in detail
3. What are the merits and demerits of e-recruitment? Describe
4. Write a detail note on Head-hunter.

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## **UNIT - 12 : SELECTION CRITERIA AND TECHNIQUES**

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### **Structure :**

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Meaning of selection criteria and technique
- 12.3 Using of selection test
- 12.4 Interview for international selection
- 12.5 International staffing issues
- 12.6 Case Study
- 12.7 Notes
- 12.8 Summary
- 12.9 Key words
- 12.10 Self Assessment Questions
- 12.11 References

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## **12.0 OBJECTIVES**

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After studying this unit, you should be able to;

- Illustrate selection criteria and techniques
- Discuss the using of selection test
- Illustrate interview for international selection and
- Discuss international staffing issues.

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## **12.1 INTRODUCTION**

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Selection is the process of picking up individuals with requisite qualifications and competence to fill jobs in the organization. However, Selection is the process of differentiating between applicants in order to identify and hire those with a greater likelihood of success in a job. However, making an effective selection decision for an overseas assignment can prove to be a major problem. Typically, this decision is based on international selection criteria, which are factors used to choose international managers. These selections are influenced by the Multinational Corporations experience and often are culturally based. Sometimes as many as a dozen criteria are used to select manpower.

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## **12.2 MEANING OF SELECTION CRITERIA AND TECHNIQUE**

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Every business organization to identify an appropriate selection criteria and define the particular knowledge, attributes, qualifications and experience a person needs to successfully carry out the particular assignment.

Job selection criteria are also known as key selection criteria.. They are designed to help make the most accurate match between the requirements of a position and the skills of an applicant. Some areas of government require applicants to respond to specific. No matter how well qualified or suited you are to a position, if you do not address them when required, your application will not make it through to the interview stage. So make sure you check what information you need to provide, before submitting your application, as requirements vary across departments and agencies. The selection committee needed to keep in their mind while selecting the candidates for particular job like demonstrated capacity to communicate effectively, good organizational and administrative skills proven ability to work as part of a team, well developed customer service skills and proven ability to manage projects. However, the followings are the important criteria for selection of man power

## **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.

## **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.

## **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 employees come out of a parochial mindset 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 legitimize diversity. Diversity does not mean managing gender differences. It is about the total perspective. It is about legitimizing diverse views in an organization, including those based on cultural differences.

## **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

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## 12.3 USING OF SELECTION TEST

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Individuals differ in many respects including job-related abilities and skills. In order to select a right person for the job, individual differences in terms of abilities and skills need to be adequately and accurately measured for comparison. This is done through a device called 'selection test'. Selection test is a device that uncovers the information about the candidate which is not known through application blank and interview. In this way, selection test is an adjunct to a selection method.

### Meaning of selection Test

Test is defined differently by different writers and psychologists. Some define test as "an objective and standardized measure of sample behavior. It is considered standardized because the procedure of administering the test, the environment in which the test is conducted, and method of calculating individual score are uniformly applied. It is called objective because test measures the individual differences in terms of their abilities and skills following an unbiased and scientific method avoiding interference of human factors. According to Lee J. Gronbach -A test is a systematic procedure for comparing the behaviour of two or more persons. Milton M. Blum has defined test as "a sample of an aspect of an individual's behaviour, performance and attitude".

### Types of Tests

MNCs having their own tests and whatever test to practicing by the organization based on nature of job, requirement of job and legal system of country.

#### Ability Tests

**Though a number of ability tests have been developed so far for the use of employee selection, important among these are the following.**

#### A- Aptitude Tests

Aptitude tests measure ability and skills of the testee. These tests measure and indicate how well a person would be able to perform after training and not what he/she has done. Thus, aptitude tests are used to predict the future ability/performance of a person. There are two objectives of the aptitude tests. One to advise youth or jobseekers regarding field of activities in which they are likely to succeed. This is called 'vocational guidance'. Second, to select best persons for jobs where, they may succeed. This test is called 'vocational selection.

## **Achievement Tests**

Achievement tests measure a person's potential in a given area/job. In other words, these tests measure what a person can do based on skill or knowledge already acquired by him/her. Achievement tests are usually used for admission to specific courses in the academic institutions. In these tests, grades in previous examinations are often used as indicators of achievement and potential for learning. Indian industries have now started conducting these tests to judge for themselves the level of proficiency attained rather than believing their scores in academic examinations. Achievement tests are also known by the names, proficiency tests, performance, occupational or trade tests.

## **Intelligence Tests**

Intelligence tests measure general ability for intellectual performance. The core concept underlying in intelligence test is mental age. It is presumed that with physical age, intelligence also grows. Exceptions to this may be there. So to say, if a five year old child does the test, for six years or above his/her mental age would be determined accordingly.  $IQ = \text{Mental Age} / \text{Actual Age} \times 100$ . It means that the intelligence quotient is a ratio of men

## **B- Personality Tests**

Personality tests are also called personality inventories. These tests measure predispositions, motivations and lasting interests of the people.

### **Interest Tests**

These tests are designed to discover a person's area of interest, and to identify the kind of work that will satisfy him. Interest is a prerequisite to successfully perform some task. These tests owe their origin to the vocational efforts.

### **Attitude Tests**

These tests are designed to know the testee's tendencies towards favouring or otherwise to people, situations, actions, and a host of such other things. Attitudes are known from the responses of the testees / respondents because emotional overtones involved make it difficult to directly observe or measure attitude of the testee.

### **Personality Tests**

These tests are also known as 'personality inventories'. These tests are designed to measure the dimensions of personality i.e., personality traits such as interpersonal competence, dominance- submission, extroversions-introversions, self-confidence, ability to lead and ambition.

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## 12.4 INTERVIEW FOR INTERNATIONAL SELECTION

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Selection interviews are typically conducted onsite at the hiring company. The purpose of a selection interview is to determine whether a candidate will be selected for the position he or she is interviewing for. A selection interview is typically more rigorous than a screening interview. At this point, a company is trying to decide whether or not you should either be moved to the next step in the hiring process or an offer is going to be extended, so there will be more scrutiny than with a screening interview.

However, the importance of good employees is felt immensely among the HR managers in today's organizations. The selection of the right candidate(s) is of vital importance. 'Interview' has emerged as a popular method of employee selection. The primary objective of interview is to find out the right candidate for right position. It requires a well-structured interview that produces more reliable and valid information for selection than an unstructured interview.

### **Nature of Interview**

#### ◆ **Job Related Interview**

Interview questions are generally designed to tap applicant attributes that are specifically relevant to the job for which the person is applying. The job-relevant applicant attributes that the questions purportedly assess are thought to be necessary for one to successfully perform on the job. The job-relevant constructs that have been assessed in the interview can be classified into three categories: general traits, experiential factors, and core job elements. The first category refers to relatively stable applicant traits. The second category refers to job knowledge that the applicant has acquired over time. The third category refers to the knowledge, skills, and abilities associated with the job.

#### ◆ **General traits Related Interview**

Applicants' capacity to learn and process information  
Personality: Conscientiousness, emotional stability, extroversion, openness to new experiences ,  
Interest, goals, and values: Applicant motives, goals, and person-organization fit

#### ◆ **Experiential Related Interview**

Job -relevant knowledge derived from prior experience · Job-relevant knowledge derived from prior education and Job-relevant knowledge derived from prior training.

#### ◆ **Core job elements Related Interview**

Applicants' learned knowledge, Procedural skills , ability to complete the tasks required to do the job and applicants' willingness to exert the effort required to do the job.



◆ **Social effectiveness skills**

Impression management, applicants' ability to adapt his/her behavior according to the demands of the situation to positively influence the interviewer, applicants' regulation of behaviors to control the image presented to the interviewer and applicants' attempt to control the flow of the conversation.

In addition to above the interview should ensure to test the candidates at different angles to find out whether, the candidate is fit or not for international assignments.

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## **12.5 INTERNATIONAL STAFFING ISSUES**

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The following are the four issues are relevant in the context of international staffing

### **1. Staffing orientation**

An international business generally hires employees from the host-country where the subsidiary is located, parent-country nationals where head office is situated and third country nationals 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.

It is not that organizations hiring host country nationals totally ignore home country citizens. Such multinationals usually place home country managers in top management or technical positions. Staffing organizations with host country nationals has advantages in as much as these managers are familiar with the local cultural needs.

### **2. Managing Expatriates**

Organization having PCNs and TCNs shall have potential expatriates. An expatriate is an individual who works anywhere but not in his or her own country of origin. With increasing globalization, companies need to depute more and more employees to work overseas and have expats on their payroll. India is attracting more and more expats as MNCs having subsidiaries of different countries.

When to expatriate, is a tough task for an IHR manager because, many overseas assignees fail and come back to the home country before completing their respective assignments. Who to identify to work in a foreign land is the issue which needs to be answered satisfactorily. A few guidelines would help identify potential expats.

- ◆ Willingness and enthusiasm of a person to work on overseas assignments. It makes no sense in pushing an unwilling individual to accept an overseas assignment. By nature, some individuals are averse to travelling. They express reluctance to travel

even within a given country. Travelling long distances on foreign assignments and staying in a foreign country are almost anathema to them.

- ◆ Potential expats by looking at their background- are they multi-culturists themselves, people who claim themselves as citizens, not of one country, but of the world. The person could preferably be multi-culturist, multi-linguist and multi-functional.
- ◆ Do the individuals, who are being identified as expats, possess appropriate skills for the positions overseas? True, organizations offer pre-departure training for expats. But such training may not outweigh the advantage of possessing the skills.
- ◆ Family background of the individual also needs to be considered while short listing potential expats. Most male assignees are generally married and tend to be accompanied by their families, while most women expats are likely to be single and unaccompanied. Whatever the position, there is no meaning in forcing an employee to accept a foreign assignment when his or her spouse is unwilling to accompany because of his or her own career prospects being adversely affected, or when such postings disrupt children's education. Assuming the spouse is willing to cooperate and children's education is not an issue, expatriating such employees is an expensive proposition.
- ◆ Local laws of host countries often come in the way of expat postings. Some countries have strict restrictions on foreigners taking employment. Temporary work visas may be difficult or impossible for employees to obtain and this exacerbates the problem.

### **3. Female Expatriates**

Expatriates need not be males always, though the trend points out to male domination. In the GMAC-GRS 2002 survey, it was found out that 18 per cent of the overseas assignees were females, and it was 14 per cent in the ORC 2002 survey. The number of female's expats is increasing. But traditionally, expatriation has been a male bastion. Several reasons account for minimal presence of females in foreign assignments – motivation, stereotyping, capabilities, family constraints, and organizational process and host country attitudes.

ACII survey of women in corporate India indicates that almost 90 percent of women exit the workplace after they have children. With regard to stereo typing, it is commonly accepted that women are fit to be home makers and not to work in business houses. They do not consider themselves as primary earners. Where both partners are in jobs, it

is the woman who is often the one staying at home or even leaves the job when a child is sick, when a child needs to be coached during examinations or when sundry repair works need to be carried out at home.

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## **12.6 CASE STUDY -I**

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The selection interview is only a valid method if it distinguishes the most suitable applicants from others. Selection methods must be convenient and cost-effective if they are to be practical. As a method of selection, the interview must enable one candidate to be distinguished from another. Interview outcomes (results) should be consistent i.e. different assessors would come to the same conclusion and any test question should actually measure the attribute or characteristic it is supposed to measure. Interviewers must use the evidence of their senses and their experience-based cognitive abilities in order to judge candidates. They will use a variety of cues (candidate appearance and body language etc) as evidence. Several errors of judgment may occur in this process such as: the halo effect (first impressions and ‘ all good’ or ‘ all bad’), stereotyping and logical error (assumptions). Students may bear in mind recent research showing some judgments are made within seconds and that first impressions are therefore important. Snap judgments and perception errors are likely to have consequences for fair selection. Furthermore, there is evidence to suggest that candidate sequencing may impact upon the selection decision. Participants appearing later in the day seem to do better than those performing at the beginning (the serial position effect). Consequently, first impressions count and appearance followed by information on the application form are significant factors.

### **Question**

The interview has attracted criticism for many years. In your groups, critically evaluate the selection interview (method), commenting on its validity (does the method achieve its purpose), reliability (consistency of results), sensitivity (ability to distinguish one candidate from another), practicality and weaknesses. In your discussion you should make reference to person perception and errors of judgment.

### **Case –II**

Students should recognize that there are a number of types of interview and different methods to conduct them. Aside from the formal and informal interview students may recognize the structured and unstructured approach i.e. interviews based on job analysis or simply a cozy chat. Structured interviews are conducted to a format with





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## 12.8 SUMMARY

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Employers need to ensure that the right people with the right skills are recruited for roles within their organization. Recruitment selection involves two main processes: short listing candidates and assessing candidates against job-related criteria to make a final selection decision. However, an effective selection is essential to recruit people with the right skills and experience to drive the organisation forward. Employers spend a lot of time and money recruiting new staff, so it is important that they follow good practice and get it right people.

This chapter has presented aspects like meaning of selection criteria and technique, using of selection test, interview for international selection and international staffing issues.

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## 12.9 KEY WORDS

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Selection , techniques of selection , test , interview, staffing, Knowledge, attributes, qualifications and experience etc.

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## 12.10 SELF ASSESSMENT QUESTIONS

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1. What is a selection criteria? Explain in brief
2. What are the types of test? Explain in detail
3. Explain the nature of interview and its merits and demerits
4. Describe detail on international staffing issues

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## **MODULE-IV**

### **PERFORMANCE MANAGEMENT**

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#### **UNIT-13 : A CONCEPTUAL BACKGROUND**

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**Structure :**

- 13.0 Objectives
- 13.1 Conceptual background
- 13.2 Objectives of Performance Management
- 13.3 Constraints in Goal Attainment
- 13.4 Areas to be Appraised
- 13.5 Case Study
- 13.6 Notes
- 13.7 Summary
- 13.8 Keywords
- 13.9 Self-Assessment Questions
- 13.10 References



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## **13.0 OBJECTIVES**

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After studying this unit, you should be able to;

- Define performance management
- Analyse the objectives of performance management
- Explain the constraints in goal attainment

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## **13.1 CONCEPTUAL BACKGROUND**

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Performance management is a set of regular, ongoing human resource activities carried out by managers and supervisors relative to their subordinates to enhance and maintain employee performance towards the achievement of the desired performance objectives. Performance management is a process that enables the multinational to evaluate and continuously improve individual, subsidiary unit and corporate performance against clearly defined, preset goals and targets. Effective performance management provides an important means for aligning individual employee and team working behaviors with the organization's goals. Especially in international business, performance management can serve as an effective human resource control mechanism for implementing MNC strategy and carrying out important objective despite significant distance and cultural barriers.

One of the challenging aspects for a firm operating internationally is how to manage the performance of its various overseas facilities. Control matters become more complex as the geographical spread, product and operation mode become more diverse. The multinational requires an effective system for managing the performance of its global operations that assists strategic cohesion and competitiveness. Monitoring performance and ensuring conformance to agreed standards are important elements of a multinational's managerial control system.

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## **13.2 OBJECTIVES OF PERFORMANCE MANAGEMENT**

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### **1. Information Purpose:**

- i. To let employees know how his performance compares with job standards.
- ii. To assist in identifying special talents and abilities.
- iii. To identify employees needing performance improvement.
- iv. To allow employees to evaluate management.

## **2. Motivational Purpose:**

- i. To establish closer employee-manager relationships and communicate the job requirements and standards of performance on a periodic basis.
- ii. To provide reward of recognition for a job well done.
- iii. To establish plans to solve performance problems.
- iv. To encourage initiative, creativity and develop a sense of ownership amongst the employees.

## **3. Developmental Purpose**

- i. To identify individual employee training needs
- ii. To help the employee to strengthen current performance and prepare for higher responsibilities.

## **4. Managerial Purpose**

- i. To translate organizational goals into individual job/performance objectives.
- ii. To communicate management's expectations regarding employee performance.
- iii. To provide feedback to the employee about job performance in the light of management's objectives.
- iv. To diagnose the employee's strength and weakness.

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### **13.3 CONSTRAINTS IN GOAL ATTAINMENT**

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While its general strategic position may be international, multinational, global or transnational, a multinational makes strategic choices based on economic and political imperatives. Within this context, the multinational has specific expectations for each of its foreign subsidiaries, in terms of market performance and contribution to total profits and competitiveness. When evaluating subsidiary performance against these expectations, however, it is important to recognize various constraints that may affect goal attainment. These include the following

1. Whole versus part
2. Non comparable data
3. Volatility of the global environment
4. Separation by time and distance

5. Variable levels of maturity
6. Control and performance management

**1. Whole versus part:**

Integration and control imperatives often place the multinational in the position where it decides that the good of the whole is more important than one subsidiary's short term profitability. For example, a situation where the multinational establishes a joint venture in a particular market in order to have a presence there, even though it has low expectations in the short term and may provide minimum resources to the venture. Therefore, the consequences of such global decisions for subsidiary management must be taken into consideration for performance appraisal.

**2. Non-comparable data:**

Frequently the data obtained from subsidiaries may be neither interpretable nor reliable as the following example illustrates. Sales in Brazil may be skyrocketing, but there are reports that the Brazilian government may impose tough new exchange controls within a year, thus making it impossible for the multinational to repatriate profits. Notions of what constitutes adequate quality control checks can vary widely from one country to another, import tariffs can distort pricing schedules, or a dock strike in one country can unexpectedly delay supply of necessary components to a manufacturing plant in another country. These factors make an objective appraisal of subsidiary performance problematic and may complicate the appraisal of individual subsidiary managers.

**3. Volatility of the global environment:**

The turbulence of the global environment requires that long term goals be flexible in order to respond to potential market contingencies. Inflexible approach may mean that subsidiaries could be pursuing strategies that no longer fit the new environments. Problems arise when subsidiary managers perceive that goals and deadlines set by a distant headquarters strategy team are unrealistic and inflexible, owing to a failure to take into account local conditions that change as a result of a volatile environment.

**4. Separation by time and distance:**

Judgements concerning the congruence between the multinational and local subsidiary activities are further complicated by the physical distances involved, time zone differences, the frequency of contact between the corporate head office staff and subsidiary management and the cost of the reporting system. Developments in sophisticated worldwide communications systems such as fax machines, video

conferences and e-mail do not fully substitute face to face contacts between subsidiary managers and corporate staff. For this reason, many multinational corporate managers spend a considerable amount of time traveling in order to meet expatriate and local managers in foreign locations. It is then possible for HR corporate staff, when designing performance management systems to take account of country specific factors.

#### **5. Variable levels of maturity:**

Without the supporting infrastructure of the parent, market developments in foreign subsidiaries is generally slower and more difficult to achieve than at home, where established brands can support new products and new business areas can be cross subsidized by other divisions. As a result, more time may be needed to achieve results than is customary in a domestic market and this fact ought to be recognized in the performance management process.

#### **6. Country and performance management:**

Through formal control mechanisms and communication through the feedback and appraisal aspects, performance management also contributes to shaping corporate culture, both formally and informally thereby acting as an informal control mechanism.

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### **13.4 AREAS TO BE APPRAISED**

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Areas to be appraised vary from one type of the employee to other type of the employee like parent country national, host country national and third country national. In addition, it also varies based on the purpose/ assignment for which an expatriate is sent to the host country.

R. Hays identifies four types of assignments. They are:

- ◆ The Chief Executive Officer is the one who manages the entire operations of a subsidiary;
- ◆ The structure producer is the one who reproduces the structure. He/she is familiar with that in the parent company or in another subsidiary. The structure include marketing framework, establishment plant, introduction of a new product, introduction of a new education/training program or introduction of a new services;
- ◆ The trouble shooter is the one who diagnoses, analyses and solve a specific operational problem; and
- ◆ The operation is the one who performs functional job in the existing operational structure.

In addition to the above four types of assignments, there are four more foreign assignments. These include:

- **The strategist:**

The strategist is the one who studies the environment under which the subsidiary operates, identifies the opportunities for new products/services and new markets, identifies the possible threats, analyses the related strengths and possible weakness and formulates the best strategy based on SWOT ( strengths, weaknesses, opportunities and threats) analysis to achieve the subsidiary goals. He/she stays in the host country for short duration in different intervals to formulate the strategy and overseas the implementation of the strategy.

- **The consultant:**

The consultant is the one who is assigned with a specific task of providing advice on an operational issue or a new business.

- **The Innovator:**

The innovator is the one who is assigned with a task of innovating a new product/ service based on the resource and / or market of he host country or creating new markets or opportunities for new markets

**Skills transferor:** skill transfer is the one who is assigned with task of developing the host country national employees of the subsidiary. He/she stays in the host country for a short duration and trains the host country nationals to take up and perform the jobs o their own.

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## 13.5 CASE STUDY

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Measuring individual performance and tying consequences to the appraisal will be more acceptable in cultures that are individualistic than in culture that are collectivist. Employees from countries such as the United States, United Kingdom, Canada, Denmark, the Netherlands and Australia tend to be more individualistic in their orientation than employees from Egypt, Mexico, India, Japan and France who are more likely to prefer performance to be measured at an aggregated level, since they believe results require collective effort. This is not to suggest that individualistic cultures are blind to the importance of group results, nor that collectivist cultures ignore individual performance and its relationship to group results. Reconciling different perspective will require the recognition that both individual and collective results are critical to success.

Holding the individual totally accountable for meeting performance standards will be more acceptable in cultures that believe in internal control than in cultures that believe in external control.

Employees from countries such as the United States, United Kingdom, France and the Netherlands more readily accept personal responsibility for results than would employees from countries such as Venezuela, China, Russia, Kuwait, Egypt, Saudi Arabia and India, who are more likely to believe outcomes are due to forces at least partially outside of their control. Reconciling differing perspective requires recognition that both internal and external factors impacted results and that both must be considered in appraisal.

Evaluating individuals based on what they accomplish rather than who they are, will be more acceptable in cultures that are achievement-oriented than in cultures that are ascription-oriented. Employees from countries such as the United States, Australia, Canada, United Kingdom and the Netherlands are more likely to accept evaluation based on what people have accomplished than are employees from countries like Egypt, Japan, China, Russia, Mexico and France, who are more likely to believe the status/qualifications of the individual should be a consideration in evaluating performance. Reconciling differing perspectives requires recognition that performance must be defined in terms that reflect all types of contribution. A well-connected person who is the key to disseminating needed knowledge through his or her network may be recognized for that contribution, while the person who succeeded individually as a result of applying that knowledge should be credited for his or her contribution. An appraisal process that allows for excellence in different types of contributions can help resolve this dilemma.

Employees from universalistic cultures will believe that the same policies, methods, processes and standards should apply to appraising all employees, as opposed to those from particularistic cultures. Employees from countries such as Canada, United States, Sweden, United Kingdom, Australia, the Netherlands and Germany are more likely to believe in one set of rules that apply to everyone under all circumstances than employees from Venezuela, Russia, China, India, Japan and France, who accept that the identity of the person and the circumstances should be considered. Reconciling different views requires that those who adapt policies factor processes to make the best of unanticipated circumstances should be credited for their initiative and good judgement even in a control-based culture, while those who ignore policies and factor friends to the detriment of the organization should be admonished, even in a particularistic culture.

Employees from countries with low power distance cultures will expect to participate in setting performance standards and debating ratings with the supervisor







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### **13.7 SUMMARY**

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The performance Management channelizes the human efforts towards achievement of organizational goals. The main objectives performance management is to provide information, motivate employees. While evaluating subsidiary performance against the expectations, however it is important to recognise various constraints that may affect goal attainment these are whole versus part, Non – comparable data, volatility of the global environment, separation by time and distance, variable levels of maturity and control and performance management.

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### **13.8 KEYWORDS**

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Non comparable data, volatility of environment, variable levels of maturity, control and performance management.

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### **13.9 SELF ASSESSMENT QUESTIONS**

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1. What is performance management?
2. What are the objectives of performance management?
3. Briefly describe constraints in goal attainment

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## **UNIT-14:PERFORMANCE MANAGEMENT CYCLE AND MODELS**

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### **Structure :**

- 14.0 Objectives
- 14.1 Organizational Role Expectation
- 14.3 Performance Management Cycle
- 14.4 Who should appraise the Performance?
- 14.5 Notes
- 14.6 Summary
- 14.7 Keywords
- 14.8 Self-assessment Questions
- 14.9 References

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## 14.0 OBJECTIVES

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After studying this unit, you should be able to;

- Explain the performance management cycle
- Illustrate model of performance management

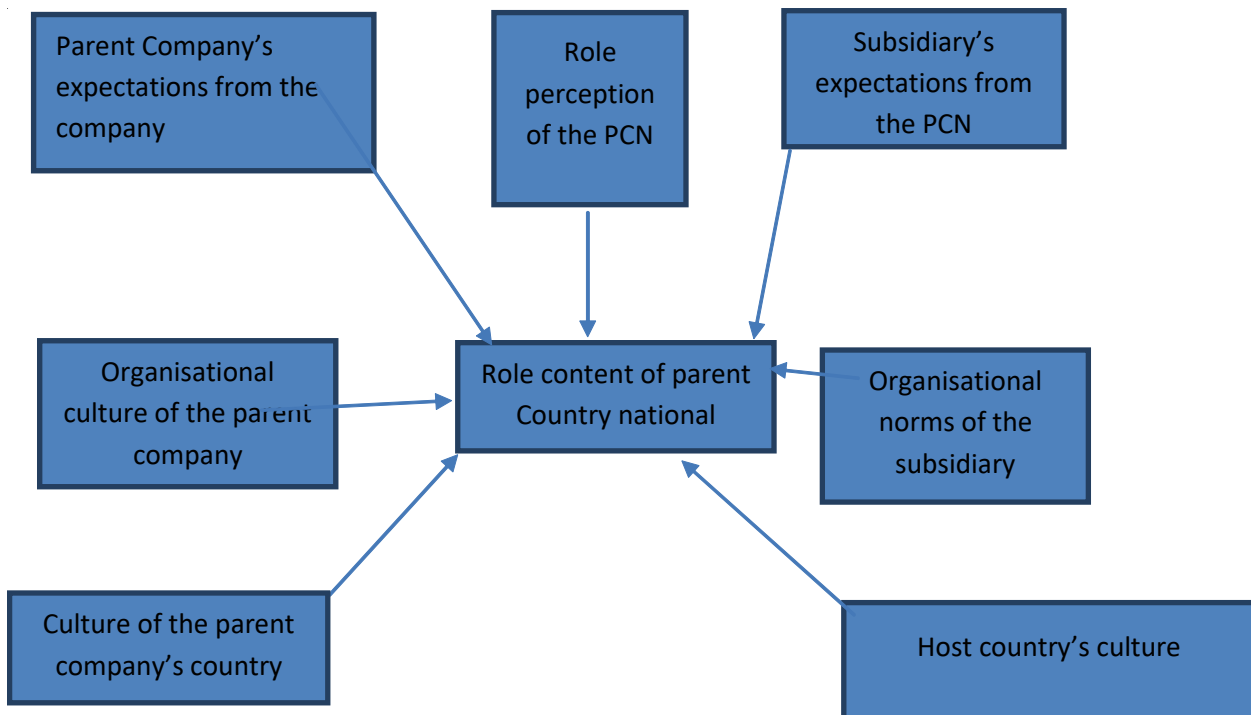
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## 14.1 ORGANIZATIONAL ROLE EXPECTATION

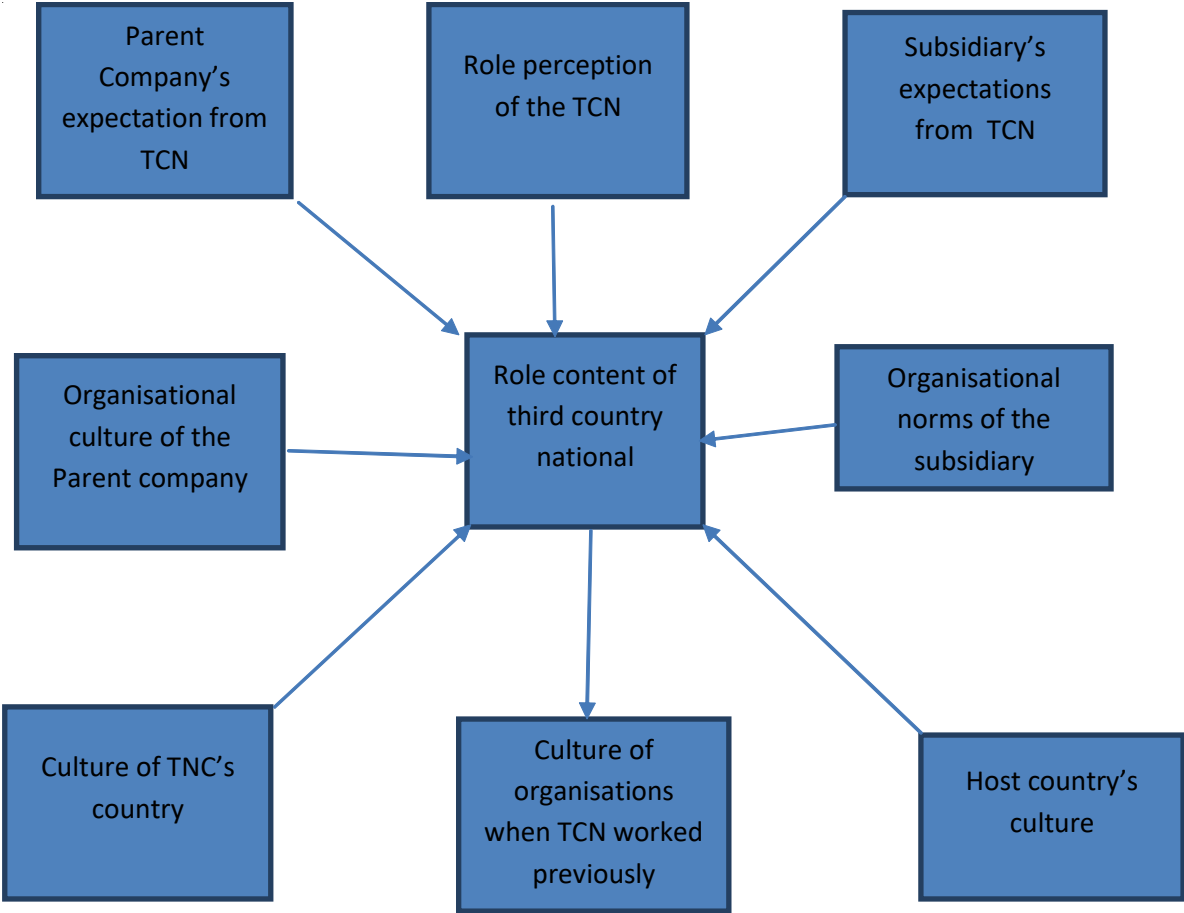
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Parent companies predetermine the roles and expectations of these roles from the parent country nationals before departure for the subsidiary. American expatriates working in Hong Kong exhibited their previous managerial behavior in Hong Kong. This was due to the failure of the parent company in providing cross-cultural training. Therefore, it is viewed the parent company has to provide cross-cultural training along with informing the parent country nationals of the role expectations.

The parent company, parent country national and subsidiary should have the common role conception. Role conception is an interactive output of parent company expectations, subsidiary expectations, organizational norms of the subsidiary and cross-cultural norms of the parent country and the host country as presented in the following figure.



Role conception of the third country national would be more critical. Parent company's expectations, role perception of the TCN, subsidiary company's expectations, organizational culture of the parent company, and subsidiary company, culture of organisations where TCN worked previously, country culture of the third country national and host country culture influence the role content of the third country national. The following figure present the role content of the third country national.



Thus, the interaction of various factors produces the role content of the TCNs. The role for the PCN as well as TCN is defined by the parent company, but it is performed in the subsidiary and host country environment. The role performance of the TCN may be deemed inappropriate by both the headquarters as well as subsidiary. For example, a Korean working for French Multinational in South Africa is viewed in appropriate by the French company as well as the subsidiary in south Africa. Torbiorn describes that the task of PCN manager is psychological close to parent company and physically close to subsidiary. In other words, it is physically distant to parent company and psychologically distant from the subsidiary. PCN has to meet the role expectations of both psychologically

and physically close as well as distant environments. TCN is physically and psychologically distant from both parent company as well as subsidiary. Thus he/she is in disadvantageous position from both the environments.

The critical aspect of role is the task performance. However, task performance does not take place on its own. In fact, the host country environment, and the parent company's expectations influence the task performance. For example, the employee who is successful in performing a task in parent company need not be successful in doing the same/similar job in the subsidiary. The vice-versa is also true. This is because; the aspects of the role other than task impose complications in task performance. In contrast, certain employees perform their jobs in the host country setting better than that in the parent company. This is mostly due to the best fit of the employee to the host country environment compared that in the parent country. For example, the task performance of most of the Indian employees working in foreign environment is superior to that in the home environment. This is because some employees may not be comfortable to the political and cultural environment of India, but they feel more comfortable with the foreign environments. This is true with most of the developing countries, thus contributing to the brain drain from developing countries to the advanced countries.

Thus performance appraisal of the foreign employees should consider the role rather than just task. Role is broader than the task. Role includes task and various other factors like leadership skill, inter-personal relations, team building skills, understanding and adapting towards organizational vulture and culture of the host country at work place, unlearning the parent country and other countries' culture that is unacceptable in the host country, motivational skills, emotional balance and stability skills, managing environmental influences, maintenance of integrity, and meeting the conflicting interests of parent company and subsidiary. The Figure below presents various aspects, of role of foreign employees. Various aspects of the role are inter connected and interact among themselves. The interactive output of these aspects is the role performance of the foreign employees. The role performance of the employee can be measured in terms of task output, relationship output and the satisfaction level of the stakeholders concerned.

**Task :** Job tasks are core of employee's foreign assignment. Job tasks include duties and responsibilities of the job incumbent. For example, the job of the project manager includes carrying out the project planning activities, project implementation, providing conducive climate for speedy and efficient project implementation, project evaluation and control.

**Leadership :** Leadership aspects of the role include leading the subordinates, inspiring the junior employees for higher level targets, innovations and to realize their potentialities.

**Meeting Conflicting Needs :** The needs of the parent company and subsidiary vary basically. Parent company needs profits to be transferred to the parent company while the subsidiary emphasizes on the reinvestment of the profits for its sustainability, growth and development. Expatriate's performance can be measured based on the degree at which the conflicting needs/expectations are balanced.

**Interpersonal Relationship Skills :** Maintenance of interpersonal relations among the employees and stakeholders connected to the overall job performance determines the performance of the expatriate.

**Cultural Issues :** The best fit culture to the efficient performance of task depends upon adapting the culture of the host environment rather than the culture with which the expatriate is familiar with.

**Integrity :** integrity should be the binding factor of task performance from the long run from the point of view of the stakeholders concerned. Therefore, the performance of the expatriate should be measured from the integrity aspect of the task rather than the immediate gains the task produces.

**Managing Environmental Influences :** Both internal and external environmental factors influence the job performance of foreign employees. The skills of foreign employee in converting the environmental influences in favour of the job enhance the employee performance. Therefore, employee skills in this regard should be considered in appraising performance.

**Motivational Skills :** Cultures of certain countries like Pacific Island countries make the employees inhibitive of their skills, talents and potentialities the motivational and inspirational skills of foreign employees help them in motivating the national employees that enhances the job performance.

**Organizationa Culture :** Organizational culture, sometimes, determines the mode of carrying the activities. In fact, some employees, though they possess required job skills, fail to perform the job due to their inability to adapt themselves to the organization culture.

**Team Building :** Team building skills of foreign employees invariably enhances their job performance. These skills include work along with others, carrying with others, understanding the cultures and the way others do the work, adjust one's own traits and

the way of doing the work towards others and the way they do the work, skills of collaborating with other ideas and talents.

**Conclusion :** As such, these role factors should be taken into account in deciding the areas to be appraised of a foreign employee. In addition to the organizational role, the foreign employee's family roles like spouse and parent influences on job performance should also be considered. Now, we discuss the family role of foreign employees.

### **Family Roles**

Employee's roles like spouses and parent also influence employees' job performance. Employee's performance to some extent depends upon the degree of adjustment of his/her spouse to the host country's culture, facilities and the institutions. The process of adjustment of the spouse can be smoothed and fastened, if the employee takes initiative and interest in his/her spouse's adjustment. Similarly, the adjustment of employee's children to the various institutions like schools and facilities also influences the employee's job performance. Employee's initiative and encouragement of his/her children would soften the process of his/her children adjustment.

Therefore, employee's skills in initiating and helping the spouse and children in the adjustment process should also be considered in appraising foreign employee performance.

### **Implications**

Areas to be appraised for foreign employees should include a variety of aspects unlike the employees of a domestic company. These areas in addition to job tasks and job duties include various organizational role aspects as well as family roles. Thus, a number of aspects are to be included in the areas of performance appraisal of foreign employees.

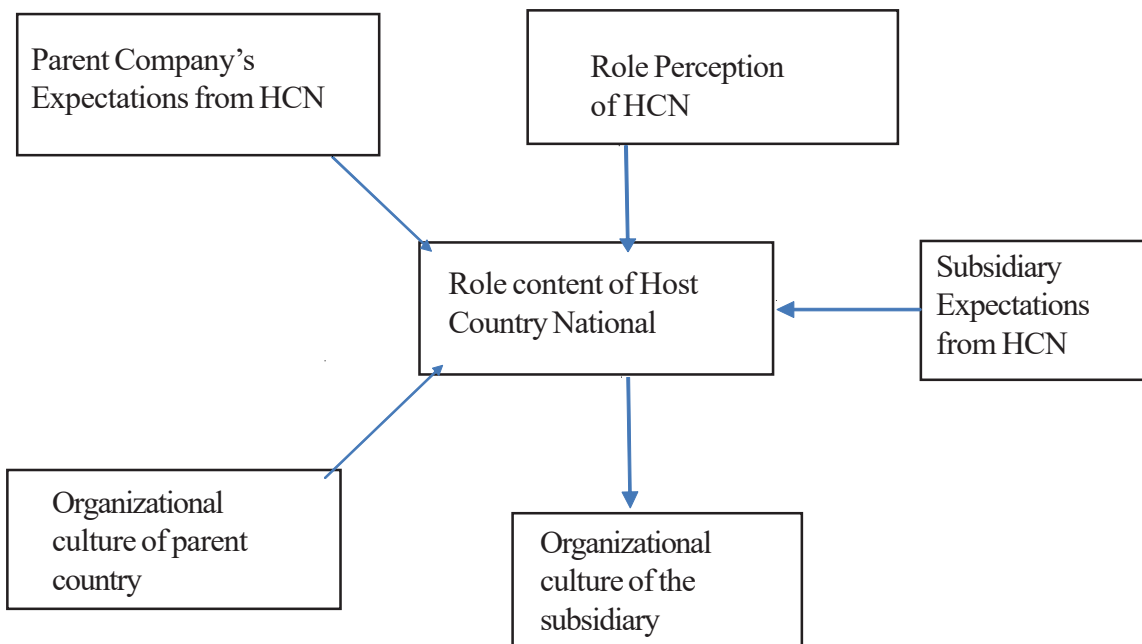
### **Areas to be appraised for HCNs**

Measuring performance of host country nationals is relatively difficult compared to that of employees of a domestic company as the host country nationals work with employees of varied cultures like parent country nationals cultures and third country nationals cultures. Host country nationals have to understand the cultures and predict the behaviour of parent country nationals and the third country nationals and accordingly adjust their interpersonal behaviour.

Therefore, areas to be appraised of the host country nationals include, skills of understanding varied cultures and behaviours, modification based on others cultures, cultures, behaviour and situations in addition to job tasks. Fig 10.6 presents the role content of the Host Country National (HCN).

Below Figure

Role Conception of Host Country National (HCN)



Role conception of host country national depends on subsidiary expectations, parent company expectations, and organizational culture of subsidiary company as well as parent company. Subsidiary's expectations in terms of task performance include interacting with employees of different nationalities and cultural adaptation. Expectation of parent company from host country national includes performing the tasks in the interest of parent company's goals and adaptation to the culture of parent country nationals. The host country national is expected to adapt to the organization cultures of both parent company as well as subsidiary in meeting the conflicting expectations of both of them. HCN faces conflicting priorities of roles when he/she reports to a PCN either in subsidiary or in parent company. These conflicts include both task expectations as well as cultural issues. These conflicts would be further complicated, if either the 360-degree appraisal or the standard appraisal formats are followed like Pepsi Cola.

Thus, areas to be appraised vary from one type of the employee to the other due to the variations in expectations of parent company and subsidiary, cultural issues and



other varying roles of employees. However they include cultural adaptations, adjustment/initiating to the institutions and facilities of parent country as well as host country, in addition to the conflicting task requirements of the parent company, host company and client company in some situations.

The next critical issue in appraising the performance of foreign employees is: who should appraise the performance of the employees?

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## 14.2 PERFORMANCE MANAGEMENT CYCLE

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**1. Performance Planning:** Performance planning is a process of

- ◆ Defining expectations – the work to be done, targets to be achieved and skills/competencies required to achieve these objectives.
- ◆ Setting measures and targets, determining the priorities and weightages of results to be achieved.
- ◆ Identifying and allocating appropriate resources (such as manpower, training, budget) to enable the executive to achieve the targets.

**2. Mid -Year Review:** Performance management is not an event but an ongoing process. Mid-year review helps in the following ways.

- Reinforcing good performance in time.

- Updating the status of targets which is progress review.
- Identifying areas for “mid-course” correction.

**3. Annual Assessment:** Objectives of annual assessment includes

- ◆ Discuss and arrive at an assessment of performance with respect to agreed targets.
- ◆ Assess the competencies, potential and core values actualization by the individual.
- ◆ Agree upon improvement plans and development needs for the individual.

**1. Normalization:** Objectives of normalization system in key performance area based on performance appraisal system are to

- Ensure parity and integrity by minimizing variation in rating by different reporting officers across various departments and locations.
- Enhance objectivity and transparency in the appraisal system.
- To view individual performance from the perspective of organizational achievement.

**2. Feedback and counseling:**

- ◆ In order to make key performance area based performance appraisal system an open system and to enhance development orientation across the organization, feedback and counseling are essential components.
- ◆ Communicating the final performance results of the executive and providing developmental feedback are critical to this process.

**Benefits of feedback include,**

- Creates transparency by making key performance areas based performance appraisal system more acceptable to individuals.
- Reinforces good performance on time.
- Enables development of coaching and mentoring relationship between reporting officer and executive.
- Ensure that the organizational objectives are achieved to an acceptable standard and in an acceptable form.

**Benefits of counseling**

- ◆ Recognition and understanding of existing strengths.
- ◆ Empowering and enabling the individual to recognize their own problems and expressing the same.

- ◆ Facilitating action through guidance and expertise.
- ◆ Helping individuals to take ownership of the outcomes of their chosen action.

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### **14.3 MODEL OF PERFORMANCE MANAGEMENT**

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Tahavanainen has proposed a model to explain how the expatriate's performance should be appraised in the context of the firm's specific strategies and set goals. According to this model organization context comprises the organization structure, performance appraisal system, top management's support, nature of job, size of the subsidiary, styles and skills of the specific expatriate manager and the other employees of the subsidiary. These factors are interrelated in terms of achievement of goals and thus influence an expatriate's performance too. Performance expectation is another important element which is linked with both company goals and performance appraisals. This can be conveyed in informal ways. Day to day management is another critical component of an MNC's organizational context. Example expatriate working in a situation where continuous customer interaction is required may need informal guidance, feedback and performance evaluation. On the other hand, an expatriate working in a standardized environment with well-defined job responsibilities may be benefited with standard performance appraisal system.

According to this model, an expatriate performance management should be initiated with the corporate strategic planning and resultant context of an international assignment. Depending on the criteria required, selection of an expatriate should be done, the performance goal must be set and required training should be provided to him/her. While on an international assignment, the performance variables such as compensation, task responsibility, HQ support, host country environment, cultural adjustment and size of the subsidiary act as influencing factors on the expatriate's performance. The performance is reviewed and feedback is given to the expatriate manager and based on the approval, the manager is appropriately rewarded. Again, the next year, the performance management cycle starts with corporate planning.

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### **14.4 WHO SHOULD APPRAISE THE PERFORMANCE?**

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Performance of the employee is normally appraised by the immediate superior in case of a domestic company. It is rather difficult to identify the immediate superior of a foreign employee working in a host company as the host company managers as well as parent company manager supervise/ oversee the foreign employee. Sometimes, the manager of a client company also supervises the employee. For example, the Oracle

Corporation operating in India provide the services to a hospital in UK. The performance of Malaysian working in Indian subsidiary of the oracle corporation is normally monitored by the supervisors/ managers of Oracle corporation, USA, Indian subsidiary and of the hospital in UK. Therefore, most of the MNCs use multiple appraisers. These multiple appraisers mostly do not directly supervise the performance of the employee and / or are not concerned with employee activities. In addition, some of them are physically located far from the employee's work place.

Performance is appraised by parent company and host country's superiors, subordinate, customers etc. Performance of the parent country national is invariably appraised by the superior in the parent country as the former oversee the career progression, of the latter, if not the performance directly. The superior in the parent company may not have either the experience or the knowledge of the host country's culture and environment that affects the employee in the subsidiary company. In addition, the manager of the cliental company also many not have any knowledge of the culture of the host country, organizational culture of the subsidiary and the environment of the host country. Thus, managers of the parent company as well as cliental company appraise the performance without the knowledge of job tasks as well as other factors of foreign employees.

Added to this practice of appraising the performance by multiple reviewers, MNCs,adapt 360-degree appraisal process, which further complicates the practice of appraising the performance. Various stakeholders like customers, bankers, government, suppliers, market intermediaries, trade unions, subordinates, colleagues, human resources professionals, superior in the parent company, superior in the subsidiary and certifying officer of the client company appraise the performance of employee under 360-degree appraisal system. (see below Box)

## Five essential strategies for managing up

### **I don't see it coming**

The game you once played on the school playground is now the game you play daily in the corporate jungle.

Remember tetherball? There's a tall metal pole planted firmly in the ground with a long cord attached at the top. At the other end of the cord the ball is tied. No matter how hard you hit the ball, which direction it's headed or how fast it's going, the ball remains attached to the pole. The same goes for your relationship with your boss-and you can guess for your relationship with your boss – and you can guess which one of you is the pole and which one is the ball.

For as long as you're in the game, you're firmly attached to your boss, to his history, reputation, politics, choices, and to some extent his future. How closely you entwine yourself with your boss will affect your reputation and will have a major influence on what you can accomplish on the job and where your career goes.

There are five laws that you can absolutely must follow if you have any hope of creating, maintaining, and managing any productive relationship with your boss:

#### **Never outshine the master:**

You're making a big mistake if you are outsmarting, or outmaneuvering your boss. Always do your best, but do it in a way that complements your boss strengths.

#### **Make your boss look good:**

Engaging in a smart game of professional flattery positions you as a person who is not only ambitious, but also supports company objectives.

#### **Exceed expectations:**

If your achievements make your boss look great, she won't see as a competitor but as an indispensable member of the team.

#### **Bring solutions, not problems:**

The smart way to succeed and get promoted is to be the person that your boss looks to first when there is something that needs to be done, managed, or fixed.

#### **Protect your boss back:**

First, keep confidential any professional or personal issues that might reflect negatively on your boss. Second, stand in for boss without hesitation if he is ever unable-but be sure to give him credit. Finally, never use your position to trade information.

*Source: <http://www.businessknowhow.com/manage/managingup.htm>*





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## **14.6 SUMMARY**

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The performance management cycle has four different stages, they are performance planning , Mid year review, Annual Assessment, normalization and feedback and counseling.

According to Tahavanainen's model of performance, an expatriate performance management should be insisted with the corporate strategic planning and resultant context of an international assignment.

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## **14.7 KEY WORDS**

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Performance planning, annual assessment, normalization, counseling, task responsibility, corporate strategic planning.

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## **14.8 SELF-ASSESSMENT QUESTIONS**

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1. Explain the steps in performance management cycle?
2. Briefly explain the benefits of feedback and counseling.
3. Explain the model of performance management.

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## **14.9 REFERENCES**

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## **UNIT-15 : PERFORMANCE MANAGEMENT OF EXPAATRIATES**

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### **Structure :**

- 15.0 Objectives
- 15.1 Performance Management of Expatriates
- 15.2 Performance appraisal of Expatriates
- 15.3 Performance appraisal of Third and Host country employees
- 15.4 Case study
- 15.5 Notes
- 15.6 Summary
- 15.7 Keywords
- 15.8 Self-assessment Questions
- 15.9 References

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## 15.0 OBJECTIVES

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After studying this unit, you should be able to;

- Analyse performance management of expatriate
- Explain performance appraisal of expatriates
- Explain the procedure of performance appraisal of third and host country employees

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## 15.1 PERFORMANCE MANAGEMENT OF EXPATRIATES

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Expatriation remains a key dimension of multinational enterprise and performance. When attempting to determine expatriate performance, it is important to consider the impact of the following variables and their inter-relationship

1. Compensation package
2. Task – The assignment task variables and role of the expatriate
3. Headquarters' support
4. The environment in which performance occurs – the subsidiary or foreign facility
5. Cultural adjustment – of the individual and the accompanying family members

### 1. The compensation package:

Perceived financial benefits, along with the career progression potential associated with an overseas assignment are often important motives for accepting the posting. If these expectations are not realized during the assignment, the level of motivation and commitment is likely to decrease thus affecting performance.

### 2. Task:

Expatriates are assigned to foreign operations to fulfill specific tasks. Hays identified 4 such tasks

- ◆ **The Chief executive officer**, or subsidiary manager, who oversees and directs the entire foreign operation.
- ◆ **The Structure reproducer** carries the assignment of building or reproducing in a foreign subsidiary a structure similar to that which he or she knows from another part of the company.
- ◆ **The Troubleshooter** is the individual who is sent to a foreign subsidiary to analyze and solve a particular operational problem.

- ◆ **The operative** is the individual whose assignment is to perform functional job tasks in an existing operational structure, in generally lower level, supervisory positions.

### **3. Headquarters' Support:**

The individual's primary motivation for accepting the assignment may be career or financially orientated, but this is often mixed with a genuine feeling of loyalty and commitment to the sending organization. The process of adjustment to the foreign location typically produces, to varying degrees, a range of emotional and psychological reactions to unfamiliar situations encountered over the period of stay in the host country. The level of headquarters' support provided to the individual and the family is an important performance variable.

### **4. Host Environment:**

The environment has an impact on any job, but it becomes of primary importance with regard to expatriate management. The international context – with its differing societal, legal, economic, technical and physical demands – can be a major determinant of expatriate performance. The type of operation to which the expatriate is assigned is important. 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.

### **5. Cultural adjustment:**

The process of cultural adjustment may be a critical determinant of expatriate job performance. It is likely that expatriates and their families will have some difficulty adjusting to a new environment and this will impact on the manager's work performance. The dilemma is that adjustment to a foreign culture is multifaceted and individuals vary in terms of their reaction and coping behaviors.

Designers and users of performance management systems need to be conscious of and responsive to, the impact of these variables.

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## **15.2 PERFORMANCE APPRAISAL OF EXPATRIATES**

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Individual performance management involves job analysis, job goals and standards and performance appraisal. Data from this process are often used to determine pay and performance and training and development requirements. Company goals influence the individual's job analysis and job description, against which job goals and standards are established and measured. Key areas while assessing an expatriate's performance include,

## **1. Performance criteria:**

Goals tend to be translated into performance appraisal criteria so specificity and measurability issues are important aspects and we need to recognize that hard, soft and contextual goals are often used as the basis for performance criteria.

**Hard goals** are objective, quantifiable and can be directly measured such as return-on-investment, and market share.

**Soft goals** tend to be relationship or trait-based such as leadership style or interpersonal skills.

**Contextual goals** attempt to take into consideration factors that result from situation in which performance occurs. For example, multinationals commonly use arbitrary transfer pricing and other financial tools for transactions between subsidiaries to minimize foreign exchange risk exposure and tax expenditures.

## **2. Who conducts the performance appraisal:**

Typically employees are appraised by their immediate superiors and this can pose problems for subsidiary managers. They work in countries geographically distant, yet are evaluated by superiors back at headquarters who are not in the position to see on a day to day basis how the expatriate performs in the particular situation.

Appraisal of other employees is likely to be conducted by the subsidiary manager depending on the nature and level of the position concerned. With regard to expatriate performance appraisal, host country managers may have clearer picture of expatriate performance and can take into consideration contextual criteria. However they may have culturally bound biases and lack an appreciation of the impact of the expatriate's performance in the broader organizational context.

## **3. Standardized or Customized performance appraisal:**

Domestic companies commonly design performance appraisal forms for each job category. Such standardization assists in the collection of accurate performance data on which personnel decisions can be made and allow for cross-employee comparisons.

## **4. Frequency of Appraisal:**

In practice, appraisal is commonly done on a yearly basis and this appears to extend to international performance systems.

## **5. Performance feedback:**

An important aspect of an effective performance management system is the provision of timely feedback of the appraisal process. The difficulty for the expatriate who is being evaluated by a geographically distant manager is that timely, appropriate feedback is only viable against hard criteria.

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### **15.3 PERFORMANCE APPRAISAL OF THIRD AND HOST COUNTRY EMPLOYEES**

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The issue has not been very well researched and data at best available are through comparative analysis of HRM practices. The performance of international assignees and other managers in global firms is critical to the success of the multinational enterprise. In different countries performance appraisal can be interpreted and viewed as an indicator of distrust or even insult.

In Japan, the manager cannot directly point out a work related problem or error committed by a subordinate since it is important in Japan to avoid direct confrontation to 'save face'. The superior is supposed to explain the mistake committed at a general level and continue with such explanations till the time the subordinate understands the problem and proposes to improve his work. Such customs affect the way performance appraisal is done in that country. To avoid confrontation and misunderstanding, one way is to use HCNs to assist in devising an appropriate system for appraising subsidiary employees and advise about how the appraisal should be carried out. This may limit the MNCs ability to standardize the performance management system and implement it univocally at all levels in their global operations. Using HCN managers for appraisal has its own problems. HCN manager is expected to perform a role that has been conceptualized at the headquarter of the parent company in a geographically and psychologically distant place which now needs to be enacted in an environment with other role senders who are both psychosocial and physically close. This creates tremendous role strain for the HCN manager.

For the people below the managerial level, it would be appropriate to localize the PMS keeping in view local behavioral norms of work behavior. The problems magnify when the HCNs are supposed to report to a PCN manager who is also going to be in charge of their appraisal. The MNCs use the same formats in subsidiaries as in their domestic company for appraisals. This standardized version without localization may be problematic in terms of usage in host country operations due to several reasons.

- ◆ The method may not be culturally sensitive.

- ◆ Translation from English to local languages may violate local sentiments.
- ◆ Use of computer generated data is affected by legal restrictions imposed by some host country governments.
- ◆ Concerns about personal privacy, etc.,

Another situation which may be problematic with regard to performance appraisal is when HCNs are transferred to the parent country operations.

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## **15.4 CASE STUDY**

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Measuring individual performance and tying consequences to the appraisal will be more acceptable in cultures that are individualistic than in culture that are collectivist. Employees from countries such as the United States, United Kingdom, Canada, Denmark, the Netherlands and Australia tend to be more individualistic in their orientation than employees from Egypt, Mexico, India, Japan and France who are more likely to prefer performance to be measured at an aggregated level, since they believe results require collective effort. This is not to suggest that individualistic cultures are blind to the importance of group results, nor that collectivist cultures ignore individual performance and its relationship to group results. Reconciling different perspective will require the recognition that both individual and collective results are critical to success.

Holding the individual totally accountable for meeting performance standards will be more acceptable in cultures that believe in internal control than in cultures that believe in external control.

Employees from countries such as the United States, United Kingdom, France and the Netherlands more readily accept personal responsibility for results than would employees from countries such as Venezuela, China, Russia, Kuwait, Egypt, Saudi Arabia and India, who are more likely to believe outcomes are due to forces at least partially outside of their control. Reconciling differing perspective requires recognition that both internal and external factors impacted results and that both must be considered in appraisal.

Evaluating individuals based on what they accomplish rather than who they are, will be more acceptable in cultures that are achievement-oriented than in cultures that are ascription-oriented. Employees from countries such as the United States, Australia, Canada, United Kingdom and the Netherlands are more likely to accept evaluation based on what people have accomplished than are employees from countries like Egypt, Japan, China, Russia, Mexico and France, who are more likely to believe the status/qualifications of the individual should be a consideration in evaluating performance. Reconciling

differing perspectives requires recognition that performance must be defined in terms that reflect all types of contribution. A well-connected person who is the key to disseminating needed knowledge through his or her network may be recognized for that contribution, while the person who succeeded individually as a result of applying that knowledge should be credited for his or her contribution. An appraisal process that allows for excellence in different types of contributions can help resolve this dilemma.

Employees from universalistic cultures will believe that the same policies, methods, processes and standards should apply to appraising all employees, as opposed to those from particularistic cultures. Employees from countries such as Canada, United States, Sweden, United Kingdom, Australia, the Netherlands and Germany are more likely to believe in one set of rules that apply to everyone under all circumstances than employees from Venezuela, Russia, China, India, Japan and France, who accept that the identity of the person and the circumstances should be considered. Reconciling different views requires that those who adapt policies factor processes to make the best of unanticipated circumstances should be credited for their initiative and good judgement even in a control-based culture, while those who ignore policies and factor friends to the detriment of the organization should be admonished, even in a particularistic culture.

Employees from countries with low power distance cultures will expect to participate in setting performance standards and debating ratings with the supervisor more than those from high power distance cultures. Employees from the Netherlands, United Kingdom, Australia, Canada and United States tend to be more active in the process and challenge the superior when there is disagreement on performance level, while this would be less likely among employees from countries such as Mexico, Venezuela, France and China.

### **Questions**

1. With the information given in the case in what 3 dimensions would you propose for Indian company with operations in 4 US locations in designing a successful performance appraisal system?
2. With the information given in the case in what 3 dimensions would you propose for Indian company with operations in 4 Japan locations in designing a successful performance appraisal system?





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## **15.6 SUMMARY**

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The performance of an expatriate is highly impact by compensation package, assigned tasks, the head quarter's support, the host environment and cultural adjustment.

Key areas need to consider while assessing an expatriate's performance include, performance criteria the appraiser, standardised or customized performance appraisal system, the frequency of appraisal and performance feedback.

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## **15.7 KEYWORDS**

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Cultural adjustment, Headquarters support, hard goals, soft goals, contextual goals, performance feedback.

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## **15.8 SELF-ASSESSMENT QUESTIONS**

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1. Write a note on a)compensation package, b)task, c) headquarters support, d) host environment, e)cultural adjustment.
2. What are hard goals, soft goals and contextual goals?
3. Briefly describe performance appraisal of expatriates.
4. Explain the performance appraisal of TCNs and HCN employees.

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## **UNIT-16 : INTERNATIONAL PERFORMANCE MANAGEMENT -ISSUES AND CHALLENGES**

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### **Structure :**

- 16.0 Objectives
- 16.1 Issues and Challenges in international performance management
- 16.2 Country specific performance management practices
- 16.3 How to make performance appraisal effective?
- 16.4 Case study
- 16.5 Notes
- 16.6 Summary
- 16.7 Keywords
- 16.8 Self-assessment Questions
- 16.9 References

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## 16.0 OBJECTIVES

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After studying this unit, you should be able to;

- Explain the issues and challenges in international performance management
- Discuss country specific performance management practices

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## 16.1 ISSUES & CHALLENGES IN INTERNATIONAL PERFORMANCE MANAGEMENT

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1. Cultural Implications on PMS
2. Rewarding Performance Globally
3. Managing Underperformance
4. Virtual Assignments
5. Subsidiary Performance

### 1. Cultural Implications on PMS:

Culture has significant impact on designing and implementing PMS in different cultures. Hofstede's 2 cultural dimensions – power distance and individualism versus collectivism are considered here for the purpose of bringing out the interface between culture and PMS. Collectivist versus individualistic cultures differs in the way goals are designed and assigned. There are 3 ways in which cultural differences impact performance management.

- Goal commitment and participation in organization
- Feedback – performance relationship
- Feedback seeking behavior.

### 2. Rewarding Performance Globally:

Critical success factors that link performance appraisal to the compensation system are as follows

- ◆ **Fairness & Consistency:** The criteria for rewarding must be established and well communicated to ensure consistency globally.
- ◆ **Inclusion of organizational results:** The performance-reward scheme must emphasize on organizational results not just individual performance. It is common practice in MNCs to link the rewards to the revenue/profits/growth generated.

- ◆ **Linkage between performance appraisal and salary increase:** In order to encourage a global culture focused on meritocracy, it is common in organizations to link promotions and salary hikes to the PMS.
- ◆ **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.

### **3. Managing Underperformance:**

PMS must also be used to detect deficiencies or inadequacies and ascertain staff development needs both individual and collective.

Performance management process for an underperformer normally includes 3 clearly defined stages

**Stage 1** – Setting expectations and monitoring performance.

**Stage 2** – Discussing and documenting problem performance.

**Stage 3** – Establishing and implementing consequences to poor performance.

### **4. Virtual Assignments:**

Virtual assignments are increasingly becoming a collaborating tool assisting MNCs in achieving global advantages. Collaborative work is critical in achieving a distinct competitive advantage. Nurturing a spirit of teamwork among co-workers is a difficult task. Conflict, poor communication, different attitudes and perspectives are just a few of the issues that can cause 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.

### **5. Subsidiary Performance:**

Assessing the effectiveness of a subsidiary is more important than assessing the performance of individual expatriates.

Assessment of the performance of a subsidiary is compounded by several constraints which include

- ◆ Balancing HQ and host unit performance
- ◆ Attention to external factors
- ◆ Vagaries of the international environment
- ◆ Significance of time and distance
- ◆ Variable level of maturity

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## **16.2 COUNTRY SPECIFIC PERFORMANCE MANAGEMENT PRACTICES**

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### **Performance management in US:**

Worker performance appraisals features the US cultural concept of meritocracy which emphasis on fairness and short term orientation.US workers fully expect to be appraised individually and rely heavily on individual feedback regarding performance. Appraisals are conducted once a year. Feedback is direct and probably in writing. Praising is done individually.US workers react more favorably to individual performance feedback.

### **Performance management in Japan**

Appraisals are based on contribution to teamwork and corporate productivity than on individual efficiency. Appraisal system place emphasis on following items

- Work attitude
- Regular and punctual attendance
- Cooperation with co-workers
- Efforts made for attaining targets

### **Performance appraisal in Japan takes place in 3 stages.**

- ◆ Every 6 months in connection with the payment of seasonal allowances.
- ◆ Every 12 months in relation to annual salary promotion.
- ◆ Long term appraisal.

Great emphasis is placed on building strong relationships between assessors and assesses. Emphasis placed on to improve one's performance and also performance of people around them. Appraisals in Japan are used for motivational and developmental purposes.

### **Performance Management in Russia**

Have observed a kind of virtual obsession among some Russian managers to manipulate and control employees. Russian employees appear to mistrust their superiors deeply. Feedbacks by superiors on employee functional behavior have positive effects on productivity. It is a formal process. Objective of appraisal is to evaluate the performance and individual personality factors. Appraisal takes place once in year.

### **Performance management in Middle East**

Middle East countries have opened their doors to talent to plug severe gaps in their labor market. Middle East countries loyalty to a superior takes preference over effective performance of subordinates. Appraisal is an informal process. Employees are constantly monitored and performance is measured. The objective of appraisal is to reprimand the poor performers. Satisfactory performance is the bonus which is one or 2 days of monthly salary.

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## **16.3 HOW TO MAKE PERFORMANCE APPRAISAL EFFECTIVE?**

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International performance management is not that effective as it should be owing to the challenges as well as the problems of performance appraisal as discussed earlier. However, it can be made effective by adapting the following issues:

- ◆ **Reliability and validity:**

Performance appraisal system should provide reliable and valid data and information. The techniques/ methods of appraisal should satisfy the conditions of inter-reliability. Appraisals must also satisfy the conditions of validity of measuring what they are supposed to measure.

- ◆ **Appraisal should be relevant:**

The appraisal technique should measure the performance and provide information for which it is designed or planned. The techniques should be designed covering the areas and content of the job based on the purpose of the appraisal. Purpose of appraisal may be for contract renewal, promotion, training and development, deputation or new assignment and career planning and development.

- ◆ **Customization of appraisal forms:**

Different factors influence the performance of different types of MNCs like PCNs, TCNs and HCN. In addition, performance appraisal requirements of parent company as well as various subsidiaries vary significantly. Therefore, MNCs should

design different appraisal forms based on the factors that affect the performance of different kinds of employees in different organisations. Thus, customized forms incorporating different kinds of employees in different organisations. Thus, customized forms incorporating the language and other unique requirements should be designed rather than adapting a standard form.

◆ **Consensus of appraiser and appriasee:**

International performance appraisal should consider several issues that can't be known by the appraiser as well as the designer of the appraisal form. The appraisee knows these issues. Therefore, the appraiser and appraise, in consultation should design the form, content and consider the nature and degree of influence of various factors. Therefore, the consensus helps the design relevant form and appraise the relevant areas. Further, the appraiser secures the acceptance of the appraise regarding the ground realities of foreign assignment.

◆ **Open and continuous communication:**

Most foreign employees want to know continuously how well they are performing on the job. An effective appraisal system appraisal system should provide needed feedback on a continuous basis. Appraisal interviews should permit both the appraiser and appraise to learn about the gaps and adjust the performance ratings and formulate the performance management policies for the future. To this end the raters should clearly explain their performance expectations to the appraises quite in advance of the appraisal period. Once, it is known, employees would work to the end.

◆ **Sensitive to Ground realities:**

Performance appraisal forms, appraisal procedure and evaluators should be sensitive to the changing and varying ground realities related to cultural factors, language, semantics', foreign political factors, trade unions, government policies and functioning.

◆ **Appraisee's access to results:**

Appraise should know the rules of the game. They should receive information and adequate feedback about the performance rules on continuous basis in order to correct the performance. Employees could not perform better without having access to the performance rating information.

◆ **Easy to operate:**

Performance appraisal forms as well as procedure should be easy to operate to the appraiser as well as the appraisee. It should not be complex.

◆ **Rater's knowledge of the appraise:**

The rater should have the knowledge of the appraise, appraisee's work, behavior, culture, organizational culture, environmental factors affecting the appraisee's work and so on so forth. In other words, the appraiser should be in direct and close observation of the appraise and his / her work.

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## **16.4 CASE STUDY**

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It is common knowledge that establishing a company's performance management system (PMS) is a significant task. But how can you ensure that you get it right from the start? HR practitioners have struggled with this issue for decades. Academic and professional journals are full of ideas and approaches to meet this challenge. Yet the task of designing and implementing a global PMS is amongst the most perplexing and challenging tasks for a global HR team.

The global HR team at Samtronics Limited within its first year of going global quickly realized that assessing work now required more knowledge and skills than ever before, its dependence on human capital as an intangible asset at each of its eighteen locations globally. They looked to the PMS to help them in optimizing the way this asset is managed, after all, "a great deal of theory concerned with human motivation and human development argues that an effective PMS should be a key building block of every organization's human capital management system. To tie performance to rewards (the key to motivating performance), organizations need to have accurate measures of individual performance. To develop, individuals need feedback about their strengths and weaknesses. Organizations, meanwhile, need performance information to direct their training and development resources to those individuals who can gain the most by them. Finally, organizations need performance information to correct performance problems and assess the effectiveness of their improvement efforts."

Samtronics management had unanimously agreed that pay for performance can play strategic role in attracting and retaining key employees and this philosophy needed to be deployed globally and across teams. The first step for the HR team was to have thorough understanding of the business in order to align performance and the pay programs accordingly. This required a different effort for different locations as the nature of work in each locations was different, while some were cost centers focused entirely on the design and development of the suite of telecom products, others were purely sales offices focused on selling the product and services and still others were sales and support offices, focused on sales and providing support. Operating in the highly competitive







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## **16.6 SUMMARY**

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The major challenges a global company while managing performance are related to cultural implications, rewarding performance across countries, managing under performance, virtual assignments and subsidiary performance.

In USA worker performance appraisals features the US cultural concept of meritocracy which emphasis on fairness and short-term orientation. The appraisals in Japan are based on contribution to team work and corporate productivity than on individual efficiency. In Russia it's been observed a kind of virtual obsession among some Russian Managers to manipulate and control employees.

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## **16.7 KEY WORDS**

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Virtual assignments, underperformance, cultural implications, seasonal allowances, long term appraisal.

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## **16.8 SELF-ASSESSMENT QUESTIONS**

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1. Briefly explain the issues and challenges in international performance management,
2. Write short note on
  - i. Performance management in US
  - ii. Performance management in Japan
  - iii. Performance management in Russia
  - iv. Performance management in Middle East

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**MODULE –V**  
**TRAINING AND DEVELOPMENT IN**  
**INTERNATIONAL CONTEXT**

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**UNIT-17 : INTERNATIONAL TRAINING AND**  
**DEVELOPMENT: CONTEXT & CURRENT**  
**SCENARIO**

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**Structure :**

- 17.0 Objectives
- 17.1 Introduction
- 17.2 Importance of International Training and Development
- 17.3 Contextual Need for International Training
- 17.4 Current Scenario in International Training and Development
- 17.5 Notes
- 17.6 Summary
- 17.7 Key Words
- 17.8 Self - Assessment Questions
- 17.9 References

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## **17.0 OBJECTIVES**

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After reading this unit, you should be able to;

- Define International training and development and explain its importance
- Comprehend the contextual need for International training and development
- Outline the variables that influence International training and development
- Describe the Current scenario in International training and development

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## **17.1 INTRODUCTION**

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As a result of an increase in the number and influence of multinational enterprises, since the early 1990s there has been a growing interest in international human resource management, reflecting the growing recognition that the effective management of human resources internationally is a major determinant of success in international business. In the international arena, the quality of management seems to be even more critical than in domestic operations (Tung, 1984). However, as Adler and Bartholomew (1992) have suggested, organizational strategy (the what) is becoming more international faster than the implementation (the how) and much faster than the development of international managers (the who). There is still relatively little empirical research, documenting the IHRM strategies and practices of multinationals. The shortage of international managers is a significant constraint on the successful implementation of global strategies (Hamill, 1989; Scullion, 1994, 1995) and many companies underestimate the complex nature of HRM problems involved in international operations (Dowling et al., 1999).

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## **17.2 IMPORTANCE OF INTERNATIONAL TRAINING AND DEVELOPMENT**

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International training and management development are always closely associated in the management literature. Gregerson et al. (1998) proposed four strategies for developing global managers: international travel; the formation of diversified teams; international assignments and training. These four strategies relate to expatriation management, particularly integrating international training and management development. Training aims to improve current work skills and behaviour, whereas development aims to increase abilities in relation to some future position or job, usually a managerial one (Dowling et al., 1999, p. 155). A truly global manager needs a set of context-specific abilities, such as industry-specific knowledge, and a core of certain characteristics, such

as cultural sensitivity, ability to handle responsibility, ability to develop subordinates and ability to exhibit and demonstrate (Baumgarten, 1992). These characteristics and skills are considered as important international competencies and all can be developed through effective international training and management development.

International training refers to training for international assignments. There are three broad types of international trainings in MNEs. They are:

**(1) Preparatory training for expatriates:** once a person has been appointed for an international assignment, pre-departure training is normally used to ensure the candidate has adequate skills and knowledge that are necessary for working abroad effectively.

**(2) Post-arrival training for expatriates:** after an expatriate has gone abroad, further on-site training is often used to familiarize the expatriate with the local working environment and procedures.

**(3) Training for host-country nationals (HCNs) and third-country nationals (TCNs):** Training should be provided to HCNs and TCNs to facilitate understanding of corporate strategy, corporate culture and socialization. Preparatory training for expatriates has received most attention in the international literature as expatriate failure (i.e. the premature return of an expatriate manager before the period of assignment is completed) is always regarded as due to a lack of adequate training for expatriates and their spouses. The expatriate failure rate is an important indicator for measuring the effectiveness of expatriation management. The costs of expatriate failure are high and involve both direct and indirect elements. In the case of expatriate recalls, the direct costs include salary, training costs and travel and relocation expenses. Mendenhall and Oddou (1985) stated that the average cost per failure to the parent company ranges between US\$55,000 and US\$80,000, depending on currency exchange rates and location of assignment. Indirect costs may be considerable and unquantified, such as damaging relations with the host country government and other local organisations and customers, as well as loss of market share, damage to corporate reputation and lost business opportunities. The literature indicates that expatriate failure is a persistent and recurring problem and failure rates remain high. Much research has been conducted among US MNEs and it has revealed “alarmingly high failure rates” (Brewster, 1988).

The complex and ever-changing global environment requires flexibility. The organization’s ability to devise strategic responses, however, may be constrained by a lack of suitably trained, internationally oriented personnel. Tung (1981, 1982) and

Mendenhall et al. (1987, 1995) identified a negative correlation between the rigor of a company's selection and training processes and its expatriate failure rate. The use of more rigorous training programmes could significantly improve the expatriate's performance in an overseas environment, thus minimizing the incidence of failure.

Earley (1987) has argued that cultural training enables individuals to adjust more rapidly to the new culture and be more effective in their new roles. There is an association between met expatriate' expectation and provision of international training. "Highly relevant cross-cultural training created either accurate expectations or expectations of difficulty prior to the assignment" (Caligiuri et al., 2001). The Table below indicates some reasons for expatriate failure in US and Japanese MNEs (Tung, 1982; Dowling et al., 1999).

### **Reasons for expatriate failure**

#### **US**

The ability of spouse to adjust

Manager's inability to adjust

Other family problems

Manager's personal or emotional maturity

Inability to cope with larger overseas responsibility

#### **Japanese**

Inability to cope with larger overseas responsibility

Difficulties with new environment

Personal or emotional problems

Lack of technical competence

The ability of spouse to adjust

Expatriate failure is seldom a consequence of a lack of technical skills. The inability of both expatriates and their spouses to adapt is a far more important cause of expatriate failure. Studies have also found that between 16 percent and 40 percent of US managers sent on overseas assignments return prematurely because of poor performance or an inability to adjust to the foreign environment. According to Brewster (1988), the inability of one's spouse to adjust was the only consistent reason given by respondents from European MNEs. Hamill (1989) found that one of the reasons for the low failure

rate of UK MNEs was the greater emphasis placed on pre-departure briefing for both expatriates and their families.

International management development deals with identifying, fostering, promoting and using international managers. Its major issues include international management development schemes, approaches to international management development, promotion criteria and factors affecting approaches to international management development. International management development can also be expected to play a central role in MNEs because of its importance in developing a cross-national corporate culture and integrating international operations. According to Bartlett and Ghoshal (2000), global firms can enhance their inter-unit linkages by creating a pool of global managers from anywhere in the world. Management development in MNEs is the “glue” bonding together otherwise loose and separate entities. Pucik (1984) argued that probably the most formidable task facing many multinational firms is the development of a cadre of managers and executives who have an understanding of the global market environment deep enough to enable them to survive and come out ahead.

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### **17.3 CONTEXTUAL NEED FOR INTERNATIONAL TRAINING**

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MNCs increasingly use expatriates on short-term and long-term international job assignments for a variety of purposes, such as: to acquire and transfer knowledge, to manage a foreign subsidiary, to fill a staffing need, to maintain communication, coordination and control between subsidiaries and corporate headquarters, and to develop global leadership competence.

An expatriate’s success in the host country is largely determined by his or her cross-cultural adjustment to the host country. Expatriates who are not prepared to confront the challenges (e.g., to cope with culture shock) find it difficult to adjust and hence, perform poorly. Thus, improving cross-cultural adjustment has been the focus of many international HR interventions. Since cross-cultural adjustment can be facilitated if the expatriate has an awareness of the norms and behaviors that are appropriate in the host country, many MNCs offer cross-cultural training (CCT) to teach their expatriates the host country’s appropriate norms and behaviors.

**Cross-Cultural Training** - Cross-cultural training is defined as any planned intervention designed to increase the knowledge and skills of expatriates to live and work effectively and achieve general life satisfaction in an unfamiliar host culture. CCT has been advocated as a means of facilitating effective cross- cultural interactions and cross-cultural adjustment



In the early 1980s, only 32% of MNCs offered CCT. Almost 20 years later, the 1998 Global Relocation Trends Survey Report indicates that 70% of the 177 MNCs surveyed provide CCT of at least one day's duration. Cross-cultural training effectiveness is reflected by the cognitive, affective, and behavioral changes that occur during the CCT event. In order to improve the effectiveness of CCT programs, or to maximize the change that occurs during training, it is important to follow a systematic approach to designing effective CCT programs.

**The process for designing effective CCT programs consists of five phases:**

1. Identify the type of global assignment for which CCT is needed.
2. Determine the specific cross-cultural training needs.
3. Establish the goals and measures for determining training effectiveness.
4. Develop and deliver the CCT program.
5. Evaluate whether the CCT program was effective.

**PHASE 1 – IDENTIFY THE TYPE OF GLOBAL ASSIGNMENT :** Caligiuri describes a classification of global assignments into four categories:1. Technical2. Functional/tactical3. Developmental/high potential4. Strategic/executive

**PHASE 2 – CONDUCT A CROSS-CULTURAL TRAINING NEEDS ANALYSIS :** A cross-cultural training needs analysis is conducted across three levels:1. The organizational level, to determine the organizational context for CCT 2. The individual (or expatriate) level, to determine any special needs that have to be addressed in CCT for a given person; and 3. The assignment level, to determine the cross-cultural knowledge and skills required to effectively complete the given assignment.

**PHASE 3 – ESTABLISH CCT GOALS AND MEASURES:** Cross-cultural training goals should be stated in detailed and measurable terms. • Detailed and measurable training goals help develop appropriate outcomes for training evaluation. • Short-term CCT goals can bring about cognitive, affective, and behavioral changes • The long-term goal of many CCT programs is to improve the rate of cross-cultural adjustment. • Improving cross-cultural adjustment is important for all expatriates and would generalize across assignments. • Likewise, improved success on the global assignment may be another generalized long-term goal with the specific dimensions, of course, being job specific.

**PHASE 4 – DEVELOP AND DELIVER THE CCT PROGRAM:** This phase involves determining the specific instructional content needed in order to achieve the

stated goal, the methods to deliver the instructional content, and the sequencing of the training sessions.

**PHASE 5 – EVALUATE CROSS-CULTURAL TRAINING :** The evaluation process involves establishing measures of effectiveness (criteria), and developing research designs to determine what changes (e.g. cognitive, affective, and behavioral) have occurred during the training. • Criteria must be established for both evaluation of short-term, and long-term goals. • The appropriate evaluation criteria should also be assessed prior to the delivery of CCT to provide some type of comparison bases for post-training assessment. In addition evaluation strategies need to be developed during phase 3, that is, the decision on how to evaluate CCT’s short-term and long-term goals needs to be made at the same time as these goals are established.

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## **17.4 CURRENT SCENARIO IN INTERNATIONAL TRAINING AND DEVELOPMENT**

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International training provision Although many have highlighted the importance of international training, international training is often neglected or poorly handled in MNEs. McEnery and DesHarnais’s (1990) survey shows that between 50 and 60 percent of US companies operating abroad at that time did not provide any pre-departure training. Tung (1981) also observed that only 32 percent of the US companies surveyed provided some international training. The 1997-1998 Price Waterhouse survey revealed that only 13 percent of European firms surveyed always provided their expatriates with access to cultural awareness courses, though a further 47 percent provided briefings for culturally “challenging” postings. To aggravate the situation even further, most training is of very short duration, generally lasting only a few days (Baumgarten, 1995). Torbiorn (1982) and Tung (1982) confirmed that European MNEs provide more training than US companies. About half of European corporations provide formal training.

Taking China as an example of a developing country, there is generally low awareness of the importance of training for expatriates in Chinese MNEs. The majority of Chinese MNEs tend to provide very limited or ad hoc pre-departure training for expatriates. Most Chinese companies provide only irregular briefings or do not provide training programmes for expatriates at all. Where training is offered, the training duration is usually short, such as two days or one to two weeks, due to the limited training programmes provided. Normally, expatriates are often not given adequate preparation time between notification of the posting and relocation. No formal and compulsory policy about post-arrival training for expatriates is made at the corporate level in any the selected

Chinese firm. Headquarters normally leave local managers to decide if there is a need to provide such post-arrival training. Chinese firms are also very weak in providing training for HCNs, spouses and families.

### ***Reasons for not providing adequate training***

The common reasons why Western MNEs neglect preparatory training for international assignments (Tung, 1982; Welch, 1994; Baumgarten, 1995) are:

- ◆ training is not thought to be effective;
- ◆ lack of time;
- ◆ the temporary nature of most assignments does not warrant budget expenditures for training;
- ◆ lack of knowledge of how to carry out training and what courses should be offered (lack of training experts and expertise);
- ◆ no need for training because there is a belief that technical skills are the only ones needed to carry out assignments abroad; and
- ◆ the right people do not need to be trained.

In the case of Chinese MNEs, the most frequently reported reasons are consistent with the prevailing literature. Training is thought to be unnecessary as technical skills are regarded as the main factors for successful overseas assignments and intercultural competencies are not important. Moreover, technical skills are considered not able to be gained through short training. Lack of expertise is sometimes cited as a reason for not providing proper training. Time and money are normally not an issue. If training was seen to be important, money and time would be arranged so it could be carried out.

### **Training programmes**

Most preparatory training emphasizes the ability to understand and adjust (Black and Mendenhall, 1990; Brewster and Pickard, 1994). The areas for which pre-departure training is required are wide-ranging. Shen and Darby (2004) have pointed out that international training should take into consideration of the host-contextual factors, including political, legal, economic and socio-cultural aspects. Host-contextual factors affect international training programmes and methods. Mendenhall and Oddou (1985) proposed three critical areas in which organisations should prepare their employees: cultural training, language instruction training and orientation training on familiarity with everyday matters. Dowling et al. (1999) suggest that training programmes should also cover areas of ethical concern, such as bribery, human rights, justice and the common

good. Many authors also state that the components of training programmes should vary according to country of assignment, type of job, duration, purpose of transfer and the time available (Tung, 1981, 1982; Mendenhall and Oddou, 1985; Brewster, 1988; Baumgarten, 1992; McDonald, 1993; Dowling et al., 1999.) Osman-Gani (2000) suggested that host country subsidiary-partner personnel are the most effective and qualified people to provide the necessary training because they are familiar with the conditions and environment of the host country and hence in the best position to impart the necessary knowledge and skills to the expatriates. In-house or company personnel are the next most effective trainers.

University or academic professionals are In reality, according to Lanier (1979), on top of the fact that most of the companies provide only brief environmental summaries and some culture and language preparation, mainly concentrating on the development of technical competence and other job-related skills. The most frequently provided training programmes for expatriates in Chinese MNEs are cultural awareness (briefings on host countries) and compliance with companies' policies. Only a very small number of firms provide international marketing, finance, economics, technical or management and language training programmes. Tung (1982) identified six major types of cross-cultural training used by US, European and Japanese companies, which include: environmental briefings to provide information about geography, climate, housing and schools; cultural orientation to familiarise the individual with cultural institutions and value systems of the host country; cultural assimilators using programmed learning \approaches designed to expose members of one culture to some basic concepts, attitudes, role perceptions and customs of another culture; language training; sensitivity training to develop attitudinal flexibility; and field experience, which sends the participant to the country of assignment to undergo some of the emotional stress of living and working with people from a different culture. Brewster (1988) found that the emphasis placed by European multinationals on language training was stronger than that of US multinationals. He also proposed six broad categories of training programmes including shadowing, look-sees, informal briefings, overlap, formal training courses and language training, which are actually similar to the other programmes mentioned above.

Osman-Gani (2000) has argued that the content, mode of delivery and training rigor are important factors in determining the success of training and development programmes for overseas assignments. The common training methods used by Western MNEs include area briefing, indoor lecture, preliminary/orientation visit, probation (or practical assistance training), and interview with repatriates or expatriates (Tung, 1981, 1982; Black and Mendenhall, 1989; McDonald, 1993; Edkins, 1995; Dowling et al.,

1999; Osman-Gani, 2000). For example, Osman-Gani (2000) insisted that practical assistance training makes an important contribution to expatriates and their family successfully adapting to their new environment. According to Black and Mendenhall (1989), low-rigour training includes approaches, such as lectures, films, area briefings and books. High-rigour approaches include interactive language training, assessment centres and sophisticated simulations. The duration of low-rigour training was four to 20 hours; for high-rigour training it was between 60 and 180 hours. According to Anderson (1990), some Western MNEs allow adequate time between notification of the posting and relocation.

The major preparatory training method used by Chinese MNEs is in-house training by senior managers or external academics. Other methods, such as reconnaissance visits prior to taking up actual duties abroad, probation, interviews with senior executives to clarify the objectives of the assignment or employing outside consultants, are not used. Extensive discussions with previous and current expatriates knowledgeable about the host countries are hardly used either. Chinese MNEs usually provide the same training programmes for all expatriates irrespective of assignments/or levels in spite of the need for different emphases. A small number of Chinese MNEs have established their own “universities” for employee training and overseas training centres. Chinese MNEs generally do not systematically analyse employee-training needs or consult line managers or expatriate themselves, or analyse expatriates’ performance in making decisions on training. Moreover, many authors emphasize the importance of involving spouse and family in pre-departure training because the inability of the manager’s partner to adapt to a different physical or cultural environment is a major reason why international assignments end in failure (Tung, 1981; Black and Gregersen, 1991; Baumgarten, 1995; Osman-Gani, 2000). However, according to Mendenhall et al. (1987), in 80 percent of the cases where training is provided, partners are not included in the training programmes. Welch (1994) stated that MNEs placed less priority on providing pre-departure training for the spouses and families. A study on international training in Chinese MNEs by Shen and Darby (2004) lends support to Mendenhall et al. and Welch.

## **International Management Development**

Many commentators suggest that MNEs develop human development-related HRM strategies and innovative development approaches to attract, retain and develop top international executive talents (Moynihan, 1993; Kopp, 1994; Scullion, 1994; Baumgarten, 1995; Youndt et al. 1996; Dowling et al., 1999). Youndt et al. (1996) have pointed out that forward-thinking firms tend to use human development-related HRM

strategies and have better outcomes as a result. The negative effect of poor management development is obvious. According to Dowling et al. (1999) turnover among repatriates may be a consequence of a perceived lack of career advancement on the basis of international experience. As Scullion (1996) has suggested, it may be difficult to recruit local managers with much talent if they feel they will not have the opportunity to undertake major roles in the company. Kopp (1994) suggested that MNEs should build a centralised personnel roster tracking managerial talents throughout the world. Dowling et al. (1999) argued that MNEs should commit to individual development security by forming a well-developed systematic repatriation system, and career and succession planning. Linking international experience to management development is also important, as Forster (2000) argued: “International experience has traditionally been an essential stepping-stone to senior management in many Western multinational companies”.

Many authors agree with the view that an effective international management scheme should include an analysis of the current international management pool, the future need for international managers, and a mechanism for developing and fostering a truly international management team (international oriented and diversified). MNEs should include HCNs and TCNs in international management development schemes, i.e. developing HCN managers through developmental transfers back to headquarters (Pucik, 1984; Doz and Prahalad, 1986; Dowling et al., 1994; Kopp, 1994; Paauwe and Dewe, 1995; Baumgarten, 1995; Scullion and Starkey, 2000.) Inpatriation has been recently cited as a solution to the lack of socialization between HCNs and PCNs, high expatriate failure and high international assignment refusal (Harvey et al., 2001). The transfer of HCNs and TCNs to headquarters exposes local managers to headquarters’ corporate culture and facilitates the development of a corporate perspective rather than simply reflecting local interests (Scullion, 1994). Edstrom and Galbraith (1977) argued that transferring HCN managers to corporate headquarters can be very effective in helping to develop global management teams and is a necessary part of successfully operating a truly global firm. Including HCNs and TCNs in management development will improve employees’ performance from a global perspective. According to Baumgarten (1995), the reason is simple because the ultimate success of an expatriate assignment depends not only on the expatriate himself or herself but also upon the local people with whom he/she has to work.

However, in reality, many MNEs are weak in international management development and lack commitment to individual career planning and management development at the corporate level. There is little evidence that MNEs tend to identify







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## **17.6 SUMMARY**

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International training and development is one of IHRM's most crucial activities and the potential benefits of effective training and development are widely acknowledged. The literature review shows that while there is growing recognition of the significance of international training and management development, the majority of MNEs do not pay adequate attention to training and developing international managers. It is customary for MNEs not to provide adequate pre-departure or post-arrival training for expatriates, spouses, partners or families, or training for HCNs and TCNs. When pre-departure training is provided, the training duration is normally short. The major components of pre-departure training advocated in the literature include cultural awareness training, language training, orientation (briefing on host environments, job roles) and sensitivity training. Other components, mainly formal training courses, such as management and technical skills, have been suggested by academics, but not been well implemented. It has been argued that the components of training programmes should vary according to country of assignment, type of job, duration, purpose of transfer and the time available. However, there is a lack of empirical evidence showing MNEs are following this advice. There is also a general weakness in international management development, reflecting the lack of long-term strategic considerations and disregard for the potential value of individual working experience. MNEs normally disconnect international experience from international management development. Therefore, we see that there is a large gap between international training and development theory and how MNEs practice it in reality. Currently, training and development policies and practices are ineffective and have resulted in frequently reported high expatriate failures and MNEs experiencing a severe shortage of international managers. In order to succeed in a globally competitive environment MNEs need to effectively train expatriates and their spouses, HCNs and TCNs, and develop and nurture a truly global management team.

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## **17.7 KEY WORDS**

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International business, Human resource management, Multinational companies, Training, Management development

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## **17.8 SELF-ASSESSMENT QUESTIONS**

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1. Define International training.
2. Explain the importance of International training and development.
3. Examine the contextual need for International training and development
4. Describe the Current scenario in International training and development

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## **UNIT-18 : TRAINING & DEVELOPMENT FOR INTERNATIONAL STAFF**

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### **Structure :**

- 18.0 Objectives
- 18.1 Introduction
- 18.2 Importance of Expatriate Training
- 18.3 The Levels of Training for Expatriates
- 18.4 Areas of Adjustment for Expatriate Training
- 18.5 Types of Expatriate Training
- 18.6 Steps for Successful Expatriate Training
- 18.7 Host Country National Training
- 18.8 Repatriation Challenges, organisational Assistance and Repatriation Training
- 18.9 Developing International Staff & Multinational Teams
- 18.10 Knowledge Transfer in Multinational Companies
- 18.11 Notes
- 18.12 Summary
- 18.13 Key Words
- 18.14 Self-Assessment Questions
- 18.15 References

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## 18.0 OBJECTIVES

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After reading this unit, you should be able to;

- Explain the Importance of Expatriate training
- Classify the levels of training and development for international staff
- Describe areas of adjustment for expatriate training
- Identify types of expatriate training
- List the steps for successful expatriate training
- Discuss phases of Host Country National Training
- Explain repatriation challenges, organisational assistance and repatriation training.
- Discuss the process of developing international staff & multinational teams
- Highlight knowledge transfer in multinational companies

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## 18.1 INTRODUCTION

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An **expatriate** is an individual living in a country other than their country of citizenship, often temporarily and for work reasons. An **expatriate** can also be an individual who has relinquished citizenship in their home country to become a citizen of another. In other words, An **expatriate** also referred to as **expat** is a person temporarily or permanently residing, as an immigrant, in a country other than that of their citizenship. The word comes from the Latin terms ex (“out of”) and patria (“country, fatherland”). In common usage, the term is often used in the context of professionals or skilled workers sent abroad by their companies.<sup>1</sup>

Given that one of the primary reasons for early repatriation is attributed to a spouse or other family member’s inability to adjust, international corporations often have a company-wide policy and coaching system that includes spouses at an earlier stage in the decision-making process. Research has shown that while the mal adjustment of an expatriate spouse can have negative consequences for the expatriate the spouse can also function as a positive resource supporting the expatriate (Lauring & Selmer, 2010).

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## 18.2 IMPORTANCE OF EXPATRIATE TRAINING

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As companies now a days are going global, there arises the need for training employees for international assignment. Expatriate training has grown in importance because of the following reasons:

- ◆ Training aims to improve the expat 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.
- ◆ Effective training can prevent many errors and minimize the negative impact on others. Some of the biggest complaints against expatriates revolves around personal shortcomings in areas such as politeness, punctuality, sensitivity, reliability, tolerance and empathy.
- ◆ Effective training programmes can also improve overall management style. In terms of leadership, the locals would like their expatriate managers to be friendly, more accessible, supportive and receptive to subordinates suggestion.
- ◆ Habits and practices relating to work motivation, negotiation skills, life style, eating and dressing, body gestures etc. vary from one culture to another. It is essential that employees are trained to handle these nuances before being posted on overseas assignments.
- ◆ To attain long term organizational goals and to minimize the cost of expatriate failure
- ◆ Bridging the cultural gaps between the host country and parent country organization.
- ◆ Recognizing that orientation / induction challenges are different for the parent and the host unit.
- ◆ Ensuring the organizational success is critical in achievement of the global objectives
- ◆ Establishing and retaining advantages over international competitors and
- ◆ Building a single organizational culture across its subsidiaries.

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### 18.3 THE LEVELS OF TRAINING EXPATRIATES

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- ◆ First level training to focus on learning about host country's culture, language, politics, business, geography, religious values and history through seminars, videos, meetings with citizens of the country before assignment begins.
- ◆ Second level training deals with assignment itself. Requirements of the position – technical, and managerial knowledge needed. Company officials through in house training impart this.
- ◆ Third level training deals with preparing him for new job at a new location which is done by his predecessor or one who is replaced.
- ◆ Fourth level training is on coping with adjustments and adapting to new environments, by providing assistance.
- ◆ Fifth level training addresses re entry back home and contact with people at home.

Therefore, Training and development of international staff should be approached as a process and not as a onetime activity. Training and development of international staff must be viewed in the light of complete deployment cycle, and the same will be most effective when linked to systematic career development plans.

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### 18.4 AREAS OF ADJUSTMENT FOR EXPATRIATE TRAINING

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#### **Family Consideration**

The strongest predictor of expatriate adjustment is about their partner's extent to adjust. If the partner is not working, he or she often needs more time to adjust to a new environment since their social network are mainly remains in the parent country. The partner may have given up their career in order to support expatriate's move, this action may cause problems around their self-worth and identity. For children, they may lose friends which leads them feel insecure in the new environment and get stressed. After moving, expatriates are often face the challenge of a new job and longer working hours. According to the 2012 Global Relocation Trends Survey Report, 88% spouses or partners resist to relocate. What's more, the most common reasons for assignment refusal are family concerns and partner's career.

#### **Individual Factors**

During the process of selecting and training appropriate expatriate, numerous individual factors related to adjustment have been studied. Personal skills, previously

international experience, and family situation are the most three important factors influence the expatriates' adjustment.

### **Job and Organizational Factors**

An overseas assignment involves getting a new job or role in the organization when the employee moves to a foreign location. One important organizational factor about adjustment is the level of the individual in the organization. It affects the method that expatriate deal with the effect of having a new job. Another organizational factor is the organizational supports that are offered to expatriates. Furthermore, the assistance from the company is related to job satisfaction level as well.

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## **18.5 TYPES OF EXPATRIATE TRAINING**

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For International assignment, once a MNC selects a person, expatriate training is considered to be the next crucial step to ensure the expatriate's effectiveness and success abroad – This is also called Cross Cultural Training (CCT). CCT is a process of orientation and skill improvement mainly on host culture and work life behaviour. The different types of training provided to expatriates include:

- Environmental briefing – geography, climate, housing, and schools. Explain the history, geography, economy, politics, and other general information about the host country and region.
- Cultural orientation – cultural institutions, value systems of the host county. Explain the major aspects of the host country Culture, including customs, traditions, every day behaviors.
- Cultural assimilators - inter cultural encounters. Provides a written set of situations that the trainee might encounter in living or working in the host country. Trainee selects one from a set of responses to the situation and is given feedback as to whether it is appropriate and why.
- Language training – communication effectiveness. company language (English), host country language skills and adjustment (Spanish) and knowledge of the corporate language (parent language – Indian)
- Sensitivity training – to develop attitudinal flexibility.
- Field experience – to make the expatriate familiarize with the challenges of assignment, job-related factors. Provide an opportunity for the trainee to go to the

host country or another unfamiliar culture to experience living and working for a short time.

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## 18.6 STEPS FOR SUCCESSFUL EXPATRIATE TRAINING

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The work on an international assignment usually starts long before the assignee arrives in the host country, and even before (and after) the training. Following is a structured process that includes six critical stages that can enhance the chances for a successful international assignment and transformational experience.

**Pre-program assessment and exploration.** This includes An assessment of the expatriate's and family members' background and prior international experience, understanding of the host culture, specific goals/concerns, and personal tendencies should shape a customized expat and family training session.

Use of cultural intelligence tools, such as Culture Wise, enables expatriates and family members to further assess their personal tendencies against the cultural tendencies of the host country. Further, exploration of existing online cultural information featured in such tools provides the trainees a wealth of questions to ask during the training session

**Expat and family training program.** This stage is designed to increase the assignees' knowledge about the host country, society, values, business culture, and day-to-day living. Completing such training should result in significantly reduced risk of cultural misunderstandings and an enhanced cross-cultural experience.

**Host manager and team cultural briefing.** This next stage is focused on the host country manager and the team with whom the international assignee will be working, and provides insight into the cultural values and norms of the assignee. Differences regarding communication and management style will be identified, as well as different expectations. Ideally, this is an in-person training program, but when that is not possible, online tools can be helpful.

**Project alignment meeting.** After the expatriate and host organization have received critical information, it is time for an exchange, either in person or via telephone or videoconference. A project alignment meeting with the assignee and host manager should be held to discuss cultural differences that might affect the success of the assignment, tools and techniques to prevent misunderstandings, and mutual expectations of the assignee and the manager. This meeting typically includes discussions about timelines, reporting strategies, and setting milestones.



**In-country coaching.** As soon as the expatriate arrives in the host country, new and unknown situations inevitably occur. Therefore, an assignee should receive face-to-face or telephone coaching. A coach monitors the assignee's process during the assignment and captures experiences, case studies, and best practices. In some cases, a coach observes the assignee's activities, such as staff meetings, virtual meetings, and other interactions between the assignee and team members. The number of coaching sessions varies based on the assignment's duration and participants needs.

**Knowledge management process.** Systematic and ongoing capture (and dissemination) of relevant documentation and lessons learned from an expatriate assignment is invaluable to the assignee, future expatriates, and the organization as a whole. Knowledge management enables the organization to avoid repetitive occurrences of known issues and over time, best practices and effective case studies are developed.

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## **18.7 HOST COUNTRY NATIONAL TRAINING**

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### **Phase 1** List training objectives

A few commonly understood objectives of training in the multinational corporation are:

- Gaining information about the parent organisation and its global existence and objectives.
- The acquisition of technological know-how specific to the organisation
- The role of the new subsidiary in the MNCs Road Map
- General awareness about parent country norms, culture and work methods

### **Phase 2** Identify the type of assignment

The types of HCN assignments can be as Managing Director / Country Head / Centre Head – Chief Operating Officer, Chief Technology Officer, Chief Information Officer, Chief Finance Officer, HR Director/HR Manager – Unit Staff

### **Phase 3** Determining Global Training Needs

Expatriates - training needs analysis at an organisational or assignment levels are

- Orientation to parent country processes and reporting mechanism
- Familiarity and awareness of parent company work practices, work culture, values
- Provisions for career planning and development initiatives

- Training for Global corporate vision and mission
- Training for uniformity in global work practices

**Phase 4- Establish Assessment Goals & Measures**

The ability to have the subsidiary similarly managed as the parent unit.

- Short-term – awareness
- Long-term – to carryout the objectives of the organisation

**Phase 5 -Develop Methods and Deliver the HCN Training**

**Methods Of Training:** – On-the-Job – Class room training – On-site visits – Mentoring – E-learning – Web based coaching

Involves two activities

- Corporate Induction
- Technological Training

**A. Corporate Induction**

- Corporate history, heritage, founders, promoters and investors
- Industry overview, company’s market share and positioning, competitors, growth
- Company’s specific product and service background
- Inducting to corporate and local leadership teams
- Future plans for growth
- Role of subsidiary
- Communicating to corporate vision and mission statement, philosophy
- The HR policies of subsidiaries
- Basic work practices of subsidiary

**B. Technological Training**

- Sharing of detailed information on the core business of the company
- Nature of work
- Knowledge to make the subsidiary to work independently

## **Phase-6 : Evaluate Training Effectiveness**

The ability of the individual to build successful subsidiary operations – Establish competent teams – Achieve the units objectives while adhering to global processes and policies.

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### **18.8 REPATRIATION CHALLENGES, ORGANISATIONAL ASSISTANCE AND REPATRIATION TRAINING**

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In fact, expatriates who have made a success of their foreign assignment may find it surprisingly difficult to return to their home culture, creating a disappointing and often confusing experience, often unanticipated. If organisations are not careful, they may also lose a proven valuable employee if the repatriation is not successful.

Organisations may be operating under the belief that repatriation training is not necessary as their employees are simply returning home to what and where they have already known, perhaps for their entire life prior to their original expatriate assignment. However, these attitudes and assumptions are a big part of the problem.

Successful expatriates become different people whilst on assignment. They have almost certainly acquired new skills - many of which may be unfamiliar or even uncomfortable to people back home.

This may include new language skills as well as seeing the world through a new cultural lens. In addition, the employee, and perhaps their entire family, has settled well in their new country and don't especially want to return home, at least at the time the repatriation assignment is offered, causing personal, family and professional dilemmas.

They may appreciate things they consider 'better' back home but may also be vocally critical of things in their home country that they believe their adoptive country did better.

Nor has the home environment stayed static. Things change and while most expatriates stay in contact with friends and family back home, they may still not be aware of day-to-day changes that have happened in the wider communities of their home country. These can range from popular culture references to confusion over new slang to the unexpected impact of a new building in the community to a new way of doing something.

These issues can all cause friction, especially when reuniting with friends, family and colleagues who expect the repatriated employee to fit back into their old life as if they have never left their home country.

Even worse, many returning expatriates, who are looking forward to share their enthusiasm and experiences in their adoptive country, may be met with indifference, dismissal or even hostility by the very people who they thought would be interested in hearing about their foreign adventures.

The employee's world view has more than likely broadened from a business perspective as well, improving their ability to see and solve problems from a more sophisticated vantage point. This 'new' vision could be seen as problematic to the team the repatriated employee has joined, perhaps accusing the returning employee of not conforming to the team or branding them as an outsider and thus less trustworthy.

This problem is more likely to be experienced in entrenched, cautious business environments that may be reluctant to any change or who may consider change to be a threat to the status quo.

Business practices that may have been relatively transparent or invisible whilst abroad may become unavoidable once back home. If they are perceived to be outdated, cumbersome or insensitive to other cultures from the repatriated employee's perspective and they try to force their new experience on the old guard, then conflict may arise. Many employees can feel that their new skills and outlook are not recognised or appreciated upon repatriation, causing the employee to feel undervalued.

Any of these challenges, which may be hidden to the employee's management or HR, if not acknowledged and addressed, can lead to the loss of a valuable employee. As the organisation has already invested substantial time and money into the assignee's career development, the cost of losing this employee to the organisation is extremely high.

### **Organisational Assistance**

The following steps can assist organisations with the task of easing the repatriation process:

- Acknowledge the value of the returning employee both from a cost perspective as well as gained insight and experience while abroad that is harder to measure quantitatively
- Recognise that the employee and their family may need assistance in readjusting to their home culture
- Provide repatriation cultural training to raise awareness and provide tools for the adaptation process

- Provide assistance for not only the returning employee but also to any partners and children so their re-entry process is smoother
- Ensure that the employee feels they can continue to make a valuable contribution to the organisation. Avoid a situation where the employee feels undervalued or marginalised as an outsider.
- Provide coaching or other professional services so the employee can better integrate into their ‘new-old’ environment.
- Finally: Listen. Do not underestimate the frustration caused when few people show interest in the repatriated employee’s experiences, knowledge and expertise gained abroad. It may be hard to quantify the value of sharing new experiences and new ways of looking at things, but the benefits gained by the organisation as a whole should not be lost.

### **Repatriation training**

Repatriation training programs are designed to help repatriating employees and their families complete a gradual, successful reintegration as they re-enter their home community and workplace. Topics covered in repatriation training include:

- ◆ Reverse culture shock
- ◆ Personal finances
- ◆ Shifting values
- ◆ Applying new skills
- ◆ Reintegration into the corporation

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## **18.9 DEVELOPING INTERNATIONAL STAFF AND MULTINATIONAL TEAMS**

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- International assignment have been recognized as an important mechanism for developing expatriates. Many MNCs are conscious that they need to provide international experience to many levels of managers ( regardless of nationality and not just a small cadre of PCNs). Therefore, International job rotation, is a well – established technique, for developing multinational teams and international operators. It may be supported by PCN, TCN and HCN attendance at common training and development programme (CTDP) held by either parent country, or regional centre or both. International assignment helps individual, team and organizational

development, Individual gains from international exposure which assists in his career progression. Further it helps in gradual development of professional attitude.

### **Organizational / team development:**

A global mind set in terms of skill, knowledge and abilities is created upon which overall growth of organizations rests. Therefore, Expatriate become the asset of MNCs and assist in the transfer of Knowledge and competence. The international assignment often is the ‘ training ground’ for the international ‘cadre’. International teams can be formed by those who have international experiences. It is frequently argued that multinationals, especially in networked organization, would be benefited from using International teams as:

- A mechanism for fostering innovation
- Organizational learnings
- A means of breaking down functional and national boundaries enhancing horizontal communication and information flows.
- A way of encouraging diverse inputs into decisions, problem solving and strategic assessments.
- A way of developing a global perspective
- A way of developing shared values, thus assisting in the use of informal, normative control through socialization.

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## **18.10 KNOWLEDGE TRANSFER IN MULTINATIONAL COMPANIES**

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The changing business environment has made organizational knowledge a critical factor of sustainable competitive advantage. Knowledge transfer plays a critical role in the long-term existence of the organization and is of strategic importance. The degree of knowledge transfer is the extent to which subsidiary employees received knowledge transferred to their subsidiary from the MNC headquarters.

There are three levels of knowledge transfer, such as individual and group level, organization level and global level. Each level expands the dimensions of the knowledge related characteristics of multinational enterprises. In the learning processes of organizations operating internationally, critical factors are location, the distance between the involved units, political issues, the organizational culture of the company,

characteristics of the strategy, structures and communication processes, language skills or intercultural skills of the leaders.

### **Knowledge Transfer between Parent and Subsidiary**

Studies show a leading role of corporate headquarters in knowledge transfer of multinational companies, which means that a vertical knowledge transfer is characteristic of the companies: knowledge is transferred from the corporate centre to the subsidiaries. It is assumed that it is basically the subsidiary that learns from the parent; and there is no important knowledge flow in the other direction. However, more and more research underpins a strengthening role of subsidiaries in organizational knowledge transfer. They contribute not only to the vertical but also to the horizontal knowledge transfer, if they own knowledge that is useful for both parent and other subsidiaries.

### **Organizational Strategy and Knowledge Transfer**

If we want to analyze the directions of knowledge transfer, we have to consider the strategies of multinational companies. Bartlett et al. identifies four kinds of strategic mentality. International strategic mentality is the earliest stage of internationalization, when technology and other kinds of knowledge, generally are transferred from the parent company to the subsidiary. Multinational strategic mentality shows that strategy is based “on the foundation of multiple, nationally responsive strategies of the company’s worldwide subsidiaries”. In companies with global strategic mentality, manufacturing, research and development are mainly managed from the headquarters; and also most strategic decisions are taken at the centre. Companies with transnational strategic mentality acknowledge the importance of flexible and responsive country-level operations. The methods of knowledge transfer which are identified by DeSouza and Evaristo may be connected to the above-described strategies. According to them, there are three kinds of vertical knowledge transfer that embody three strategies of knowledge transfer in global enterprises: strategy commissioned in the headquarters of the company and which is carried out at the local subsidiaries; strategy developed in the headquarters and carried out regionally; strategy developed regionally and carried out locally. We can conclude that the importance of the growing complexity of knowledge motion among company units is gaining recognition..

### **Direction of Knowledge Transfer**

Yang et al. emphasize that mergers and acquisitions provide good opportunities for the organizations to add to or renew their existing knowledge. Knowledge flows within multinational companies include, along with the traditional vertical knowledge

transfer from the headquarters to the subsidiaries, also knowledge transfer in the opposite direction: knowledge flows from subsidiary to headquarters, the so-called reverse knowledge transfer. They show that the determinants of conventional and reverse knowledge transfer are based on different transfer logics. Conventional knowledge transfer is likely to be “transplantation” or “supplementation”, where the subsidiary generally adapts the knowledge coming from the parent company. Reverse transfer is more complicated than conventional knowledge transfer, so knowledge characteristics play a more important role than in conventional transfer. Subsidiaries may be motivated by the opportunity though, that they can strengthen their position through the transfer of knowledge within the whole organization, and that the parent company is interested in the knowledge transfer if it is beneficial for it from some point of view. For this, the parent company may recognize and acknowledge new knowledge of the subsidiaries and its possible advantages. The distance of the knowledge flows also influences the methods chosen for knowledge transfer: namely the choice whether personal coordination mechanism or technology-based coordination mechanism is preferably applicable in knowledge transfer of a certain organization .

### **Critical Players of Knowledge Transfer**

In the MNC context, cultural and functional similarity or diversity can have a very powerful impact on knowledge processes and knowledge sharing , and since international business life is connected to people’s mobility and their interaction, with crossing national borders, factors such as understanding, tolerance, value system , impacts of multinational environment, languages, accent, behavioural diversity have become more important than ever. Expatriates are seen as an important means of identifying new knowledge and transferring tacit knowledge in multinational corporations . MNEs often assign expatriates to foreign subsidiaries with the aim of transferring knowledge; however, research is lacking in connection with their strategic role in facilitating knowledge transfer and in enhancing foreign direct investment performance .

We usually distinguish two kinds of assignments in multinational organizations: assignees sent from the parent company or from a third country to a subsidiary (expatriates) and the assignees from a subsidiary appointed for a long-term stay abroad at the parent company (inpatriates). Expatriates from the parent company play a significant role in interpreting and disseminating the parent company’s knowledge at the subsidiaries. They usually transfer knowledge and skills which don’t exist at the subsidiary: organizational culture, technical knowledge, process knowledge, and financial and market knowledge. In addition to this, they take home new knowledge with them, because they



work in a multicultural workforce, and they deal with different cultures, with different people and different attitudes. The expatriates benefit from the assignments, since their reputation and international competence improve as a result of their work abroad. As another outcome of their assignment abroad, a two-way knowledge transfer becomes reality. Organizations are interested in using the knowledge and experiences of the expatriates the best possible way, for the sake both of the organization and the individual. Thus, through their assignment, expatriates contribute to the reverse knowledge transfer of multinational organizations. However, in order to have a chance to do this, organizations have to develop knowledge-oriented views and also to develop and sustain a supportive collaborative organizational culture . The repatriation process affects the retention of these people, how their international experience and expertise is retained for the organization.

When analyzing the role of expatriates, we must also talk about the fact that a critical though neglected factor in the knowledge transfer of multinational companies is the knowledge sharing ability of the sharing person. This is why we must in this process pay attention to the abilities and willingness of expatriates to transfer knowledge. The disseminative capacity of the expatriate or knowledge sender depends on both the ability and willingness to share knowledge. Successful knowledge transfer is based on the individual's intrinsic motivation . Multinational companies have different ways to develop the desired skills and competences of expatriates to transfer knowledge: long-term assignments abroad can strengthen the willingness of expatriates to transfer knowledge and, at the same time, their knowledge transfer skills can also improve through their involvement in diverse short-term projects or other unique solutions. However, not only characteristics of the knowledge sender but also characteristics of knowledge, and also of the receiver of knowledge, and the relationship between sender and receiver influence the degree of knowledge transfer from headquarters and subsidiaries . Along with knowledge management initiatives coming from the centre, we should also mention the importance of expatriates from regional centres. This mobility gives the opportunity to adapt faster and more flexibly, instead of adapting centrally developed solutions. International project groups, committees, assignments and informal networks can be viewed as efficient learning structures and framework in MNCs. The extent of the opportunity for members of the subsidiaries to participate in cross-border activities makes the possible contribution of them to international knowledge transfer transparent.



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## 18.12 SUMMARY

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An expatriate is a person who has citizenship in at least one country, but who is living in another country. Most expatriates only stay in the foreign country for a certain period of time, and plan to return to their home country. Training and development of international staff is done in about five levels of training by MNCs to ensure the success of overseas assignments. Areas of adjustment for expatriate training are Family Consideration, Individual factors & Job and Organizational Factors. The different types of training provided to expatriates include:

Environmental briefing, Cultural orientation, Cultural assimilators, Language training, Sensitivity training and Field experience. There are several challenges repatriates face and would therefore necessitate training. Repatriation training include reverse culture shock, personal finances, shifting values, applying new skills and reintegration into the organization. International assignment have been recognized as an important mechanism for developing expatriates. International teams greatly benefit MNCs. Expatriates become the asset of MNCs and assist in the transfer of Knowledge and competence. There are three levels of knowledge transfer, such as individual and group level, organization level and global level. Each level expands the dimensions of the knowledge related characteristics of multinational enterprises.

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## 18.13 KEY WORDS

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Expatriation

Repatriation

Expatriate failure knowledge transfer

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## 18.14 SELF-ASSESSMENT QUESTIONS

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1. Explain the Importance of Expatriate training
2. Classify the levels of training and development for international staff
3. Describe areas of adjustment for expatriate training
4. Identify types of expatriate training
5. List the steps for successful expatriate training
6. Discuss phases of Host Country National Training
7. Explain repatriation challenges, organisational assistance and repatriation training.

8. Discuss the process of developing international staff & multinational teams
9. Highlight knowledge transfer in multinational companies.

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## **UNIT-19 : INTERNATIONAL COMPENSATION**

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### **Structure :**

- 19.0 Objectives
- 19.1 Introduction
- 19.2 International Compensation
- 19.3 Forms of Compensation
- 19.4 Factors that Influence Compensation Policy
- 19.5 Key Components of Global Compensation Package
- 19.6 Notes
- 19.7 Summary
- 19.8 Key Words
- 19.9 Self - Assessment Questions
- 19.10 References

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## **19.0 OBJECTIVES**

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After reading this unit, you should be able to;

- Explain the Importance of International Compensation
- Describe Forms Of Compensation
- Identify Factors That Influence Compensation Policy
- Discuss Key Components

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## **19.1 INTRODUCTION**

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Compensation is the amount of remuneration paid to an employee by the employer in return to the employee's services to the company. Compensation is extrinsic reward for an employee. Extrinsic rewards include praise from a superior, salary, employee benefits, career progression etc. Almost all the employees accept jobs in MNC's take-up assignments in various countries, & take-up the risk, bear inconveniences & discomforts in foreign assignments mostly based on the compensation package.

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## **19.2 INTERNATIONAL COMPENSATION**

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Principles of International compensation • Be legal • Be adequate • Be motivating • Be equitable • Be cost-benefit effective • Provide security

Objectives of International compensation management are to Recruit & Retain Competent Employees, Benefit management, Employee mobility in a Cost-effective way, Improve Organizational Performance, Competitive & Comparable, Organization Ability to pay, Financial protection to employee, Consistency & Equity in pay.

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## **19.3 FORMS OF COMPENSATION**

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There are two forms of compensation provided to employees; direct and indirect. Direct forms of compensation have a multitude of types or methods, from salaries to bonuses. Indirect compensation is primarily the various types of benefits and long term incentives.

One of the forms of compensation is direct remuneration for services rendered by the employee. The term used for this is wages. It consists of four different groups of payment from the employer to the employee. They are salary, hourly, commission and bonus types of wages.

## **DIRECT FORMS OF COMPENSATION**

### ***Salary***

This type of wage is customarily a set sum of remuneration over a defined period of time. The most traditional form is a dollar amount over a period of one year. The frequency of payment is another part of the compensation and is based on industry standards. Most businesses pay for services twice a month.

Most commonly used tool to pay professional or licensed employees. In general there is an expectation from the employer of a longer term commitment from the employee for providing a regular uninterrupted compensation.

### ***Hourly***

This is a dollar amount per hour of service to the employer, more commonly used to compensate unskilled and skilled laborers in the workforce. This form of compensation comes with an implied understanding that during times of slow or minimal workloads, the employee may not be used to provide services. In effect, there is no guarantee of a regular cycle of pay.

### ***Commission***

When compensation is based on volume or some form of performance, this is known as commission based remuneration. Other terms used include piecework or piecemeal. Many industries used this type of remuneration to get a minimum standard of production in exchange for compensation. It is used to shift risk from the employer to the employee. There are two methods to calculate commission. One is based on volume of services and the other is based on sales.

An example of an industry that uses volume remuneration extensively is the fishing industry. The men that work on the boats have a risk that the captain will not find fish. In exchange, the captain may hit upon some nice fishing grounds and bring in a large catch. Once the fish is offloaded, the processors use commission to compensate the production workers. These workers are paid by piecemeal, that is, how much final product they can generate from the catch. Typically their cuts of the meat are weighed and they are compensated based on that measurement for services rendered.

An example of an industry that uses sales based commissions is the auto retail dealerships. Here the salesman is enticed to get the buyer to purchase the vehicle so that he may receive compensation for his services. Other commission based industries

include, brokers, real estate agents, door to door salesmen, internet website owners and some folks in the cleaning services.

### ***Bonuses***

Bonuses are used to increase performance from the employee. This is a variable type of remuneration and is more commonly found with salaried staff to incentivize them for a particular goal whether time or volume based. Other reasons used for bonuses are to increase or maintain retention of certain skills or the pool of skillsets needed in the company. Sometimes bonuses are paid when a company meets certain financial standards or goals over an extended period of time.

Bonuses are not commonly used with hourly or commission based employees due to the nature of the type of compensation already established. However, in small businesses it is used as a tool to incentivize these two types of remuneration to meet certain goals. The other form of compensation is indirect in value. This includes benefits and equity based programs. In general, these two types of indirect compensation provide value to an employee over a longer period of time.

## **Indirect Forms of Compensation**

### ***Benefits***

This particular group is traditionally thought of in the form of insurances (health, dental, life, disability and vision) and retirement. Very few small businesses provide benefits to their employees due to cost involved. When small businesses begin providing benefits, they customarily start out with retirement because of simplicity and low cost. As they grow, they add health insurance and continue to expand the benefit package as the number of employees increase and the risk of business performance decreases. Benefits allow for retention and recruitment.

Other benefits can include transportation, paid time off, vacation time, and customized incentives (lodging, meals, phones, etc.).

### ***Equity Based Programs***

Rarely found in the small business world for several reasons. These types of indirect compensation tie the employee to the company via ownership. Due to the complexity and the legal issues involved, very few small businesses use this tool. This is a sophisticated method to retain key employees



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## **19.4 FACTORS THAT INFLUENCE COMPENSATION POLICY**

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**Factors that affect Global Compensation are:**

### **MNC's Internal Environment**

- Goal Orientation & compensation objectives
- Competitive strategy
- Organisational Culture
- Human Resource Structure
- Employee-Employer Relations
- Subsidiary role
- Level of Technology.

### **MNC'S External Environment**

- Parent Country
- Labour Market Characteristics
- Local conditions
- Home & Host Country govt. roles
- Industry type
- Competitor's Strategies

### **Internal Variables influencing International Compensation Strategy**

- Goal orientation
- UK-based foam manufacturer Zotefoam, where equality is a key aspect of HRM in the company's mission, the only perks that differentiate executives from other workers are private health insurance and a car allowance – MD of the firm sees the internationalizing firm as one with minimal status differences between levels in the org. hierarchy
- ◆ **Capacity to pay**
- Cost constraints on the enterprise
- Competitive strategy

- If for eg., as part of the MNC competitive strategy, the IHRM strategy is to be a market leader in employee compensation in order to compete for the most competent candidates, then the levels of compensation might well be higher than if the competitive strategy is based on, say, the provision of secure employment.
- Organization culture
- It also influences the degree to which employees are compensated on the basis of seniority, in contrast to personal connections or performance
- Workforce characteristics
- Age, education level, qualifications and experience, along with workforce tastes and preferences, and labor relations factors such as nature of employment relationship (level of TU involvement within MNCs) will result in different international compensation approaches

### **External Variables influencing International Compensation Strategy**

- Nationality of the parent country
- In terms of culturally determined values and attitudes towards compensation policy and practices – local culture influences international compensation strategy through the dominant societal values, norms, attitudes and beliefs concerning for eg. bases for compensation differences (performance, family connections, gender), degrees of compensation differences between managerial and non- managerial employees, and the propensity for using particular types of compensation (pay incentives and benefits)
- Labor market characteristics of supply and demand
- Education and skill levels, ages and experiences of those in the labor market
- Role of home and host country government in labor relations • Affect the level of govt. regulation of the labor market and employment relationship, including compensation of the workforce
- Industry type
- Evidence from 2 global industries, scientific measuring and medical instruments suggest that MNCs competing in a global industry may be more likely to allocate rewards based on corporate and regional performance rather than on subsidiary performance, as favored by MNCs competing in a multi-domestic industry

- Different industry sectors also have different norms and practices for international compensation (eg. service-sector and high technology MNCs have been more likely than manufacturers to incorporate equity- based options in their international compensation strategies)
- Competitors' strategies
- Even if the MNC is not seeking to be a market leader in international compensation, it generally cannot afford to fall behind market rates across its locations, as it will risk losing valuable employees to competitors .

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## 19.5 KEY COMPONENTS OF GLOBAL COMPENSATION PACKAGE

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The following are the key components of Global Compensation Package:

**Base Salary and Incentive Pay** - • Pay/Base salary • Bonus • Stock-Option,

**Allowances-** • Cost of Living • Housing Allowance • Educational Allowance • Medical Allowance • Insurance Allowance • Relocation Allowance Hardship Premium

**Taxes-** • Exchange Rate Protection • Tax Equalization • International Market • Tax Protection

**Retirement Benefits-** • Gratuity • Pension • Social Security Measures

### ***Base Salary and Incentive Pay***

Base Salary • Base salary is a fixed amount of money paid to an employee by an employer in return for work performed. Base salary does not include benefits, bonuses or any other potential compensation from an employer • The base salary is either paid in the expatriate's home or parent country currency, or in the currency of the expatriate's host country

Incentives/Variable Pay • A growing number of MNCs have dropped the ongoing premium for overseas assignments and replaces it with a one time, lump- sum premium • Even in domestic, MNCs are preferring one- time premiums to periodic salaries.

### ***Use of Long Term benefits***

Employee Stock Option Plan (ESOP) This is plan established by a company wherein a certain no. of shares are reserved for purchase and issuance to key employees. Such shares usually vest over a certain period to serve as an incentive for employees to build long-term value for the company.

Restricted Stock Unit (RSU) • This is a plan established by a company, wherein units of stocks are provided with restrictions on when they can be exercised. • It is usually issued as partial compensation for employees. • The restriction generally lifts in 3-5 years when the stock vests. • IT companies are increasingly using RSUs as incentives since they afford a lot more flexibility.

Employee Stock Purchase Plan (ESPP) • This is a plan wherein a company sells shares to its employees usually, at a discount. • The company deducts the purchase price of these shares every month from employees salary.

## **Allowances**

**Cost of Living Allowance** – • Payment made to the expatriate with a view to compensating for differences in expenditure between the home or parent country and the host country. • Factors such as inflation differentials and the price level need to be considered. Often, the cost of living allowance is difficult to determine

**Housing Allowance** – • Payment made to the expatriate with a view to ensuring that he or she can maintain their home-country living standard in the host country. • Alternatively, an organization may provide housing facilities on a mandatory or optional basis. • Also, support services may be provided to the expatriate, for example, by helping sell or rent the expatriate's house in the home country

**Home Leave Allowance** – • Payment made to the expatriate with a view to facilitating their visit back to the home country, once or twice a year. Home leave enables the expatriate to renew business, family and social ties, and thus avoid adjustment problems subsequent to repatriation

**Relocation Allowance** – • Payment made with a view to enable the relocation of the expatriate to the assignment location. Includes moving, shipping, storage costs, subsidies for purchase of appliances and (possibly) an automobile

**Education Allowance** – • Payment made with a view to supporting the education of the expatriate's children, i.e. tuition, language class, school enrollment fees, books and supplies, transportation to educational establishment, room and boarding, school uniforms etc. • Problems regarding the level of education required and adequacy of schools in the host country, and transportation to other localities may pose significant problems for organizations

• **Miscellaneous Allowances** – • Depending on the level of seniority of the expatriate, payments to him or her for club memberships, sport associations, maintenance

of household staff etc. may be rendered • In addition, the organization may render financial assistance to the spouse for her or his loss of income as a result of the transfer of the expatriate

### ***Benefits***

Support rendered to an expatriate in addition to the allowances provided. There are several types of benefits, more prominent examples being: •Social Security Benefits (home country or host country?) •Paid Vacations for expatriate and family •Rest and Rehabilitation leave (especially for expatriates based in “hardship” assignment locations) •Emergency Cases (severe illness, death)

Hardship Premium •This is perceived as an inducement in the form of a salary premium to accept an overseas assignment. •Generally salary premiums vary from 5-40 % of the base salary. •Determining the appropriate level of payment can be difficult Factors determining the hardship premium, usually expressed in terms of an expatriate’s base pay, are typically: Factors determining the hardship premium, usually expressed in terms of an expatriate’s base pay, are typically:

### ***Taxes***

Taxation • Problems , Issues and Challenges • Dual tax cost : Expatriates paying taxes in both home and host country. • Need to consider personal and corporate taxes in addition to income tax • Modifying compensation packages to provide the most tax-effective, appropriate rewards within the overall compensation framework

Taxation • Issues while considering benefits • Whether or not to maintain expatriates in home country programs, particularly if the company does not receive tax deduction for it. • Whether companies have the option of enrolling expatriates in host-country benefit programs and /or making up any difference in coverage • Whether host-country legislation regarding termination affects benefit entitlement • Whether expatriates should receive home country or host country social security benefits • Whether benefits should be maintained on home country or host country basis, who is responsible for the cost, whether other benefits should be used to offset any shortfall and whether home country benefit programs should be exported to local nationals in foreign countries

**TAX EQUALISATION** • Organizations withhold an amount equal to the home country tax obligation of the PCN and pay all taxes in the host country. • Firms withhold an amount equal to home country tax obligation, and pay all taxes in the host country • By far the more common taxation policy used by multinationals • Tax payments equal to

liability of home country tax payer with same income and family status are imposed on employee's salary and bonus • Additional premiums or allowances are paid tax free TAX PROTECTION The employee pays up to the amount of taxes he or she would pay on remuneration in the home country. In such a situation, the employee is entitled to any windfall received if the total taxes are less in the foreign country than in the home country Employee pays up to the amount of taxes he or she would pay on compensation in the home country. Employee is entitled to any windfall received if total taxes are less in the foreign country than in the home

- Ad-hoc • Each expatriate handled differently , depending upon individual package agreed to with the firm • Laissez Faire • Employees are 'on their own' in conforming to host-country and home country taxation laws and practices

**Retirement Benefits** • Gratuity is a defined benefit plan and is one of the many retirement benefits offered by the employer to the employee upon leaving his job. An employee may leave his job for various reasons, such as - retirement/superannuation, for a better job elsewhere, on being retrenched or by way of voluntary retirement.

- A pension is a contract for a fixed sum to be paid regularly to a person, typically following retirement from service. Types of pensions are Employment-based pensions (retirement plans), Social and state pensions, Disability pensions

- Social Security Measures - Social Security is a comprehensive approach designed to prevent deprivation, assure the individual of a basic minimum income for himself and his dependents and to protect the individual from any uncertainties. • The Employees' Provident Funds & Miscellaneous Provisions Act, 195 • The Employees' State Insurance Act, 1948 (ESI Act) • The Workmen's Compensation Act, 1923 (WC Act) • The Maternity Benefit Act, 1961 (M.B. Act) • The Payment of Gratuity Act, 1972 (P.G. Act)

International living costs data • Obtaining upto-date information on international living costs is a constant issue for MNEs • The MNEs take the services of consulting firms • These firms conduct regular surveys calculating a cost-of-living index that is updated in terms of currency exchange rates • This data is a very important issue to expatriate employees and forms the basis of many complaints if there are updating lags on compensation package rise

- MNEs must also respond to unexpected events such as currency and stock market crash. For eg (Asian crisis) • Such events have a dramatic impact on prices and the cost of living • MNEs must also decide what to include in the 'basket-of- goods' which the consulting firms use to decide the living costs



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## **19.7 SUMMARY**

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Compensation is the amount of remuneration paid to an employee by the employer in return to the employee's services to the company. It is an extrinsic reward for an employee. Objectives of International compensation management are to Recruit & Retain Competent Employees, Benefit management, and Improve Organizational Performance, by ensuring compensation that is competitive & comparable as also consistent & Equitable. It further provides for Financial protection to employee. There are two forms of compensation provided to employees; direct and indirect. Direct forms of compensation have a multitude of types or methods, from salaries to bonuses. Indirect compensation is primarily in the form of various types of benefits and long term incentives.

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## **19.8 KEY WORDS**

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Compensation, Compensation Strategy, Incentives, Allowances, Retirement Benefits, Taxes, Pension.

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## **19.9 SELF-ASSESSMENT QUESTIONS**

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1. Explain the Importance of International Compensation
2. Describe Forms Of Compensation
3. Identify Factors That Influence Compensation Policy
4. Discuss Key Components of International Compensation.

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## **UNIT -20 : COMPENSATION PRACTICES**

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### **Structure :**

- 20.0 Objectives
- 20.1 Introduction
- 20.2 Approaches to Global Compensation Management
- 20.3 Compensation Practices Across the Countries
- 20.4 Social Security Systems Across the Countries
- 20.5 Emerging Issues in Global Compensation
- 20.6 Notes
- 20.7 Summary
- 20.8 Key Words
- 20.9 Self - Assessment Questions
- 20.10 References

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## 20.0 OBJECTIVES

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After reading this unit, you should be able to;

- Explain the various approaches to international compensation
- Illustrate compensation practices across the countries
- Examine the social security systems across the countries
- Identify the emerging issues in global compensation

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## 20.1 INTRODUCTION

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Employee compensation and rewards play a critical role in the ability for large and complex global organizations to attract, motivate and retain the talent they need to be successful. When planned strategically and done well, rewards can be used to differentiate a company from its competitors, drive cultural and operational consistency or emphasize key cultural and operational differences within a company and/or from country-to-country.

82% of compensation philosophies in global practices are universal or companywide rather than varying by country or region (18%), and most performance management programs are applied consistently to all countries (84%). Half of the variable pay programs for global practices are designed primarily at the corporate level, and all employees usually participate in the same programs. A third of the global programs are designed exclusively at the corporate level, with all employees worldwide participating in the same programs. 81% of global organizations use bonuses (e.g., sign-on, retention) for some or all employees in the United States, Canada and the Middle East. Following bonuses, organizations use recognition (e.g., spot award), performance sharing (based on other financial or nonfinancial goals) and individual incentives (other than sales incentives).

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## 20.2 APPROACHES OF GLOBAL COMPENSATION MANAGEMENT

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**1. Salary Level in Host Country Approach:** It is also called Localization Approach. Global compensation is based on salary levels for similar jobs in comparable organizations in the host country For example, HSBS in India pays salaries to Indians(host country nationals), Chinese(parent country nationals) & Americans(third country nationals)based on: salary levels of Indian banks like ICICI,IDBI,HDFC or salary levels of foreign banks operating in India like Citi bank or salary levels of other Chinese financial institutions operating in India.

**2. Negotiation/Bargaining Approach:** Some employees as well as MNC's prefer to determine the compensation package through mutual negotiations between the employee & the employer. It would be possible when a) The number of expatriates is relatively less, b) – The company and the prospective employee have full knowledge of on-going salary levels, and c) The skills of the prospective employee are in short supply

**3. Lumpsum Approach :** Under this, MNC determines the total package in money value that covers the base salary, all kinds of allowances and benefits. The employee is provided with the freedom of allocating the money & deciding up on the type and quality of housing, medical, conveyance, education for self & family members, air travel, recreational facilities, taxation, repatriation of savings, seating-in, setting-out, exchange rate production etc.

**4. Buffet Approach :** Under this, the total salary level is determined by the organization & the employee given an option to decide the cash component & benefits component in the total compensation package. Employees normally select more components of benefits depending upon their needs & remaining portion of the compensation in the form of cash. This option reduces the tax burden

**5. Cluster Systems Approach :** MNC's segment the countries and/or cities into clusters based on the cost of living & other factors like hardships & danger issues that affect the compensation package. They determine more or less same compensation package for each job within the same cluster of cities. This approach reduces the cost of complexities in the compensation administration.

**6. Global Approach :** Under this approach, MNC determine the uniform pay scales for such jobs throughout all the countries where they operate. Further, these pay scales are applicable uniformly for all categories of employees including the host country nationals. This approach is based on the concept of national pay scales with in a country.

**7. Performance Based Approach :** This approach provides the opportunity for best performers to earn high salary irrespective of nationality including host country nationals. This approach provides a minimum guaranteed base salary irrespective of performance that would be enough to meet the basic needs of employees. This approach is organisation friendly as it enhances organisation performance & increases value & productivity.

**8. Double Home Country Salary & Living Compensation at the Host Country Approach:** Under this approach, MNC's determine the package in such a way that the expatriates get compensation best domestic salary plus living host country

compensation. Double home country salary would be the double of the best salary that a best candidate gets in the home country for a similar job.

**9. Balance Sheet Approach :** Basic objective of global compensation is maintenance of home-country living standard plus financial inducement. Home-country pay and benefits are the foundations of this approach. Adjustments to home package to balance additional expenditure in host country. Financial incentives (expatriate/hardship premium) is added to make the package attractive . This is the most common system in usage by multinational firms.

***The four Balance Sheet Approach categories:***

- **Goods and services** – home-country outlays for items such as food, personal care, clothing, household furnishings, recreation, transportation and medical care.
- **Housing** – the major costs associated with housing in the host country.
- **Income taxes** – parent-country and host-country income taxes.
- **Reserve** – contributions to savings, payments for benefits, pension contributions, investments, education expenses, social security taxes, etc.

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## **20.3 COMPENSATION PRACTICES ACROSS THE COUNTRIES**

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### **Best practices for creating an international compensation package**

Doing business internationally requires companies to cover a lot of bases, especially if they plan to employ a global workforce. For example, if a company is based in Canada but is looking to hire people who will live in various countries throughout Europe, it will be necessary to pay those individuals in the currency native to their location.

Other considerations that need to be taken into account are the various tax laws that exist in certain countries. Also, based on the local cost of living, companies need to determine what would be seen as a competitive salary in the various locales around the world where individuals will be employed. These are just a few of the reasons why creating an international compensation package requires a lot of thought and consideration.

For companies looking to take their operations international and deploy workers across the globe, here are some helpful tips on how to create a salary and incentive-laden offer that employees will find generous and worthwhile:

#### **1. Factor in living costs:**

Some places around the world are more expensive to live in than others. Monster wrote that a number of components go into calculating the cost of living for an

employee who will be working in a location outside of his or her home country: family size, the cost of living differences between an employee's current location and where he or she will live for work and the average housing cost. Taking these items into consideration will help an organization determine the amount of money that will need to be added on top of a base salary to make it worthwhile for international workers.

## **2. Understand insurance guidelines:**

Health insurance is a common component of any compensation package. However, for individuals who will be working abroad, insurance guidelines vary by country. Monster wrote that China has a national health care coverage system. However, this only applies to naturalized Chinese citizens. Some countries don't offer medical coverage at all. Companies need to have strong knowledge of health care rules in foreign countries in the event they need to offer their employees some kind of assistance in this area.

## **3. Be clear on tax rules and regulations:**

Income and payroll taxes in foreign countries can be highly complex and difficult areas to navigate. World at Work suggested partnering with people who have a thorough understanding of the tax guidelines that exist in the countries where staff will be placed. Monster wrote that in some situations employees are taxed twice: in the country where they live and from their own homeland. In these situations, organizations may have to offer some form of tax assistance to offset the costs incurred by the employee.

## **4. Determine the currency that employees will be paid in:**

Some companies send expats to foreign lands. Others will hire individuals native to the country where operations will be established. It's important to determine the currency preferences in each situation. Whatever the selection, working with a backend payment service that will ensure that people are paid efficiently and with no hassle will be a critical part of any international compensation package.

As technology continues to make the world smaller, many companies are expanding their operations. However, when employees are involved, it's necessary to make it worthwhile for people to accept opportunities where they will have to move themselves, and potentially their families, miles away from home. Companies that plan to hire people to live and work in other countries must put the needs of their employees first in this situation.

Doing so will deepen the sense of trust and loyalty that an individual has with an organization, while also adding a level of comfort living and working in a place that is essentially foreign to them.

### **Compensation practices in USA, Europe and Japan:**

In USA - Compensation package includes: base salary, bonus, long term incentives & other benefits and perks. The base salary is the small part of the total package. • In Europe – Paid less compensation than that of American executives, but benefits and Employee perks are much better in Europe than America. • In Japan – The compensation levels of CEO's of large companies are just one-third of those of American CEO's. Japanese compensation is based on seniority of employees.

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## **20.4 SOCIAL SECURITY SYSTEMS ACROSS THE COUNTRIES**

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Social security programs are increasing in number around the world. Initially instituted in European and Latin American countries in the early 20th century, social security plans can now be found in developed and developing nations worldwide. However, as is the case in the United States, social security systems in many of these countries have funding problems. Social security may also have unintended effects on economic and demographic behavior in a country. Many of these behaviors are only now beginning to be understood. The National Institute on Aging (NIA) supports research on the social security system in the United States and worldwide in order to better understand their effects and possible means of reforms. This newsletter discusses some of the current research undertaken by NIA-sponsored and other researchers. Program Types Two different kinds of financing systems are generally used for social security programs: defined-contribution and defined-benefit. These systems work very differently in the way they fund accounts. Defined-contribution accounts are similar to pensions offered by private employers—individuals contribute to their accounts and receive payments from their own accounts when they are eligible for benefits. The funds in an account may be invested and payouts are a function of the amount contributed and the return on investment. This system varies from country to country in several aspects, including how funds are invested, whether funds are government-run or managed by regulated private pension companies, and how payouts are distributed. The common aspect of each system, however, is that each person funds an account from which that person's benefits will be paid. This system is often referred to as "funded" because its obligations are backed up by funds. A competing system is the defined-benefit, or pay-as-yougo (PAYG) system, which exists in all OECD (Organization for Economic Co-operation and Development) countries including the United States. This system consists of a benefit amount defined by the government and which, in many systems, bears little relation to the amount actually contributed by the individual. Benefits paid to retirees are contributed by workers paying

into the system currently. In a balanced system, the amount paid in by current workers in a given year is supposed to equal the amount being paid out to retirees in that year. However, this setup is highly vulnerable to changes in demographics and imbalances may occur in a given period. In one particular type of PAYG system—notional defined contribution (NDC)—benefit payments are tightly linked to the amount paid into the system over a worker’s lifetime. Sweden, Italy, and Latvia use this system. The French and German systems are closely related to the NDC system. In principle, such systems are supposed to adjust automatically to economic and demographic change and so remain fiscally stable (Auerbach and Lee 2006). Generally, funded plans are found in developing nations because these plans present less risk to the government, and PAYG is common in developed nations. But many countries have hybrid systems (see table)

#### Retirement and Pension Provisions in 2002

##### Country/Universal Coverage/Retirement Incentive

Argentina/ Yes /No

Australia/ Yes/ No

Austria /Yes /No

Belgium /Yes /No

Bolivia /Yes /No

Brazil /Yes/ No

Burkina Faso /No/ Yes

Canada /Yes/ No

Chile/ Yes/ No

Colombia/ No /No

Denmark /Yes /Yes

Dominican Republic /Yes /No

Ecuador /Yes /Yes

Egypt, Arab Rep. /Yes /No

Finland /Yes /Yes

France /Yes /Yes

Germany /Yes /No

Ghana /Yes /No  
Greece /Yes /Yes  
China/ Yes/ No  
India /No /Yes  
Indonesia /No/ No  
Ireland/ Yes /No  
Israel /Yes /Yes  
Italy/ Yes /Yes  
Jamaica /Yes /Yes  
Japan/ Yes/ No  
Kenya /Yes /Yes  
Korea, Rep./ Yes /Yes  
Madagascar /Yes/ Yes  
Malaysia /Yes /No  
Mali /Yes/ Yes  
Mexico /Yes/ Yes  
Morocco /No/ Yes  
Netherlands /Yes/ No  
New Zealand/ Yes/ No  
Nigeria /No /Yes  
Norway /Yes /Yes  
Panama /No /Yes  
Peru /Yes /No  
Philippines /Yes/ Yes  
Portugal /Yes /Yes  
Senegal/ Yes /Yes  
Singapore /Yes /No



South Africa / Yes / Yes  
Spain / Yes / Yes  
Sri Lanka / Yes / Yes  
Sweden / Yes / No  
Switzerland / Yes / No  
Taiwan / No / Yes  
Tanzania / No / Yes  
Tunisia / Yes / Yes  
Turkey / Yes / No  
Uganda / No / Yes  
United Kingdom / Yes / No  
United States / Yes / Yes  
Uruguay / Yes / Yes  
Venezuela, RB / Yes / No  
Vietnam / No / No  
Zambia / No / Yes  
Zimbabwe / No / No

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## **20.5 EMERGING ISSUES IN GLOBAL COMPENSATION**

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In-house legal and human resources professionals at companies of all sizes are expected to navigate the legal and cultural ramifications of employing a global workforce. Compensation programs designed for employees at a company's primary location often must be adapted to comply with local customs while still maintaining the "one culture — one company" mentality. To successfully adapt these programs, legal and HR professionals must have a working familiarity of tax, securities and employment laws around the globe; be able to spot common areas of noncompliance; and know when to seek out the local experts. The following areas present particular challenges for companies taking their U.S. compensation platform and applying it to employees globally. With careful planning and recordkeeping, companies can successfully incentivize employees on a global scale.

### ***Equity compensation programs:***

Rarely can a company's existing equity compensation plan be applied in a cross-border context without adjusting for local tax and employment laws. For example, phantom equity is taxed on vesting in some jurisdictions and therefore is not an effective compensation tool where deferred compensation is desired. In addition, some jurisdictions prohibit discriminating against part-time employees in plan-eligibility provisions, in the same way that U.S. laws prohibit discriminating on the basis of gender, age or race. Introducing equity compensation programs in new jurisdictions also can trigger unexpected and significant disclosure and government notice requirements, additional pension contribution expenses and increased severance obligations. It is important that a company not only understand the legal differences between the jurisdictions in which it operates, but also maintains detailed records of where its employees are located and when they are located there in order to precisely allocate, among countries, the tax obligations associated with the equity compensation.

### ***Employee relocations:***

The current global business environment is changing the way companies view employee relocations by increasing the pressure to reduce costs and improve the speed of relocation, ultimately creating new and alternative models of global deployments. Before applying any relocation model, a company not only must know the location, duration and responsibilities connected to an employee's relocation, but also have a solid knowledge of the laws in the deployment country to determine which structure is the best fit for the situation and to account for any potential corporate or employee tax risks. As discussed above, this is particularly important when dealing with equity incentives for employees working in multiple countries.

### ***Employees in cross-border transactions:***

Even the most straightforward transaction can become increasingly complex and time consuming once cross-border employment issues and legal obligations are introduced. Union and works council rights tend to be stronger in jurisdictions outside the United States, and often include collective consultation requirements (even where no union or other collective body existed absent the transaction) that can place significant burdens on a seller. Buyers often have limited opportunities to change the terms and conditions of employment for employees absorbed by the transaction and frequently are required to obtain the consent of the employee or the consent of a union or works council to do so.

Employee departures: In many jurisdictions outside the United States, the concept of “at-will” employment simply does not apply. As such, companies must navigate a complex, and often restrictive, set of statutory notice and severance requirements when dealing with a departing employee. In some jurisdictions, severance obligations may stem from cultural expectations rather than the legal standards, and these can be triggered unexpectedly in the context of corporate transactions. In other jurisdictions, separation is simply not possible without the company exposing itself to suit. In addition, companies must structure exit packages to avoid tax liabilities for both the employee and the company.

While the business case for globally expanding a bonus or benefit may indeed be global, the mechanics here can get complex. Each of the world’s countries, in its own particular way, locally regulates many aspects of employee pay and benefits. Every time a multinational headquarters launches, expands or improves some border-crossing bonus or benefits scheme—and certainly every time headquarters internationally amends, reduces or discontinues one—the employer needs to flush out and then overcome all the legal obstacles in each affected jurisdiction.

### ***Consider Payor Entity Carefully***

The first question when launching any cross-border compensation or benefits offering should always be: Which corporate entity within our multinational conglomerate will fund this plan? Even more importantly: Which entity in our group will directly tender plan payments or benefits to employee participants in each jurisdiction?

Headquarters funding—and particularly headquarters payment tendering—of an international pay/benefits plan opens a Pandora’s box of legal issues as to: payroll withholdings/ contributions/reporting; corporate and employee-participant tax/social security; currency regulation/reporting/foreign exchange; “permanent establishment” (unlicensed transacting business abroad); and, as to stock/equity plans, securities law.

Separately, whenever a headquarters entity directly tenders money (sometimes even when it tenders stock options or shares) to employees of its own overseas affiliates, headquarters risks becoming a co-/dual-/joint employer jointly liable, along with the local in-country employer affiliate, for local employment claims. A local employee only need argue to a local labor court something to the effect of: I’m being paid by two bosses, so obviously I’m working simultaneously for both of them. One solution here is for headquarters to have each of its local affiliates tender the bonus or benefit to its own staff, even if behind the scenes headquarters funds the grant and reimburses its local

affiliates. But this solution can be cumbersome in administering equity/stock plans. And in countries like India and Singapore, having headquarters directly tender the consideration actually offers certain advantages regarding enforceability of clawbacks and choice-of-headquarters-country-law clauses.

### ***Ripple Effects***

Total compensation includes base pay, bonuses and often the value of some fringe benefits. Accordingly, many countries roll bonuses and even benefits into their definition of total compensation for calculating local mandatory extras like vacation pay, overtime pay, social security contributions, “thirteenth-month pay,” pension contributions and severance pay. This can make a global bonus/benefits plan much more expensive than bargained for. Multinationals sometimes try to solve this problem by inserting into an international plan a clause that purports to exclude plan pay-outs from these other calculations. But not surprisingly, local law in many places ignores these clauses. Be sure to account for ripple effects when granting pay or benefits in a foreign country.

### ***Definitions Matter***

Any global pay, bonus or benefits plan should clearly define all key terms—even terms with meanings that seem obvious back at headquarters. For example, an American multinational’s global plan might link eligibility to “regular” “full-time” status, or to being a “salaried” “exempt” employee, or to being neither “retired” nor dismissed for “good cause” during a plan year. These terms mean different things abroad. Be sure to define them in the international plan document.

Also, be precise in characterizing what plan payments are for—characterize payments in a way that works as intended in every relevant jurisdiction. This can be a big-ticket issue. For example, if a plan sponsor wants payouts under a global separation pay plan to count as down payments toward employer severance pay or notice pay obligations under local dismissal law, then make the plan terms explicit. In December 2013, the Supreme Court of Canada refused to let an employer characterize pension payments to a laid-off employee as severance/notice pay because neither the employment contract nor the plan terms characterized the payments as severance.

### ***Cross-Border Alignment***

We mentioned that a multinational’s headquarters human resources team sometimes looks at its headquarters compensation and benefits offerings and decides that fairness, good HR and a strong business case militate for extending some offerings internationally. For example, American headquarters employees might get employer-

provided medical insurance, dental insurance, an employee assistance program, an adoption-reimbursement plan, even a company severance pay plan. Meanwhile, headquarters executives at a multinational based in France might get a profit-sharing plan and company cars. Headquarters will inevitably wonder: Isn't it only fair to extend these offerings to our teams across our overseas offices?

Maybe, maybe not. When considering whether to internationalize some local compensation term or benefit, first verify that the underlying business case really does reach abroad. For example, American employers offer medical insurance and employee assistance programs because the United States has no broad-based socialized government medical care system—Obamacare notwithstanding. And some U.S. employers offer severance pay plans because U.S. employment-at-will does not require severance pay. The environment is very different abroad, making the need, overseas, for these particular offerings far less urgent. Meanwhile, Continental European multinationals give their headquarters executives company cars because cars are expected and sometimes tax-advantaged in Europe. Of course, while staff everywhere appreciates a free car, in markets like the United States, benchmarking and tax analysis usually militate against a benefit so expensive. In short, when expanding a benefit beyond its indigenous market, be sure to align with overseas environments. Does expanding it justify the cost?

### ***Eligibility and Local Pay Laws***

Be sure the eligibility criteria for a cross-border pay/bonus/benefits plan select participants in the target jurisdictions in a way that is legal and consistent with foreign pay discrimination laws. For example, pay discrimination laws in Europe and elsewhere can actually force an employer giving a benefit to one class of workers to offer that same benefit to all equivalent-or-higher employee groups.

Further, laws in Europe bar the common U.S. practice of limiting a benefit (medical insurance, for example) to full-time staff. Laws in the Middle East prohibit compensating foreigners, including even inbound expatriates, more than locals. And equal protection laws in Germany and South Africa may effectively impose an “objectively reasonable” rule for selecting bonus and benefits plan participants.

In addition, bonus and compensation plans that pay a significant percentage of employee compensation can trigger quirky local pay laws. Always check whether each affected jurisdiction imposes any local pay regulations that reach the proposed global offering. The poster boy example is the financial services industry bonus cap across Europe.

## ***Labor Consultation***

In many countries, to propose a new bonus or benefits plan (even one limited to management) amounts to a mandatory subject of consultation or bargaining with local worker representatives—works councils or trade union committees. Be sure to involve local worker representatives, as required, in any decision to launch or expand—and particularly in any decision to reduce or discontinue—a bonus or benefit. That said, there are some exceptions. Austria, for example, empowers works councils with broad consultation rights but excludes “competence” over pay and benefits offerings.

Employees and their representatives usually welcome new compensation and benefits programs, so worker reps rarely object when their employer rolls out a new plan. But they sometimes push for tweaks or start horse-trading for different benefits. And again, collective consultation becomes a huge issue when a multinational wants to amend, cut or discontinue some element of compensation or benefits.

## ***Vested/Acquired Rights***

We have been discussing formally installed, ongoing compensation and benefits plans. But sometimes a multinational offers a special or ad hoc one-off cross-border bonus or benefit—say, a one-time broad-based stock grant that the employer may re-grant again the next year and maybe even yet again the following year. In many jurisdictions employees might be able to claim they acquire a vested right to receive these offerings forever. So any international one-time-only grant or fixed-term pay plan with an end date needs to declare its temporary status loudly and clearly.

Ideally, have employees or their representatives acknowledge that they accept the one-off award knowing they may never get another. That said, as time goes by, this acknowledgement may not prove enforceable. Consider the ramifications of vested rights.

## ***Consents***

As mentioned, cross-border compensation and benefits grants often include participant acknowledgments consenting to plan terms for each beneficiary to sign. Sometimes the plan terms being consented to even pepper in substantive changes to employment terms unrelated to plan administration—for example, stock option or equity plan grants sometimes add in a noncompete provision.

While employee consents can prove vital, a consent is worth little when the law will not enforce it. Employee consents outside the pay and benefits plan context (particularly in Northern Europe and parts of Latin America) can be susceptible to being

held invalid as inherently coerced—the theory is that when a manager asks a subordinate to sign a consent, the subordinate has little choice. The good news is that even in jurisdictions skeptical of employee consents, a consent should be fully enforceable where it links to an extra bonus or benefit the employee was free to reject. That is, most jurisdictions should enforce an employee acknowledgement where the employer can show the employee was free to withhold consent at absolutely no detriment other than nonparticipation in the plan.

### ***Rescission of Prior Plans***

Often an updated version of a pay/bonus/benefits plan replaces an earlier arrangement. This is particularly common, for example, among employers that launch annual commission plans and annual variable pay plans across regions. Trading in an old international pay or benefit plan for this year's model raises a number of issues including the need to rescind the old plan completely.

Launching the new plan alone is never enough: What if overseas staff later point to the old plan and argue that it remains in force alongside the new one? Take the steps necessary under local law formally to revoke the earlier plan—notice, board resolution, employee consents, worker representative consultations and the like.

### ***Clawbacks***

Clawback clauses are common in bonus and benefits plans because they disincentivize undesired employee behaviors. Think, for example, of retention bonuses that require employees who quit early or get fired for cause to pay back part of the bonus. Or sales commission plans that let the employer claw back paid but unearned commissions. Or tuition reimbursement programs that let the employer claw back tuition from a participant who flunks or drops out of the course early, or who quits his job upon graduation.

But actually enforcing employee clawbacks can be particularly tough in many countries, including Denmark, France, Japan, Korea, Sweden and much of Latin America. An even bigger challenge is enforcing a clawback provision that purports to let an employer deduct clawback-owed funds from paychecks or severance payouts. Before drafting clawback and pay-deduction clauses, understand the enforceability challenges under applicable law.

### ***Choice-of-Law and Dispute Resolution***

In most countries, choice-of-foreign-law clauses in employment agreements tend not to be enforceable. But choice-of-headquarters-country law clauses can sometimes actually be enforceable in cross-border bonus and compensation plans, at least as to plan administration topics that do not touch on fundamental employee rights. For example, a choice-of-headquarters-country law clause is obviously a vital term in an international equity or stock plan administered under the law of the jurisdiction that issues and trades the stock shares. Still, countries like Argentina and Chile may hold even these choice-of-law clauses void if a dispute over the plan arises locally and lands in a local labor court.

Separately, dispute resolution provisions in compensation and benefits plans will likely be held void in most jurisdictions outside the United States, because local labor courts usually enjoy mandatory jurisdiction over employment disputes, including even compensation and benefits disputes. In the compensation and benefits context, an employer will usually be able to enforce a choice-of-foreign forum clause only by convincing a local court that the dispute is over a plan that is separate from employment. So think carefully before including a choice-of-foreign-forum clause in international employee pay or benefits plans.

### ***Language***

Laws in Chile, Belgium, France, Quebec, Poland, Portugal, Turkey and elsewhere require that most all employee communications—including written compensation and benefits plans—be communicated locally in the local language. For a multinational to have declared “English is our official company language” is no excuse to flout those laws. Be sure to translate cross-border plan documents and communications at least in those jurisdictions that require translations.

### ***Cross-Border Data Transfers***

Administering a global compensation plan, particularly an employee equity/stock plan, can require transmitting local participant data back upstream to headquarters, so headquarters can administer the plan and track employee grants. But in Argentina, Canada, Europe, Israel, Hong Kong, Mexico, the Philippines, Uruguay and a growing pool of other jurisdictions, “exports” of plan participant data require special legal channels—like (in Europe) model contractual clauses, safe harbor and binding corporate rules. Otherwise, have plan participants sign data processing consents as part of the enrollment process.







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## 20.7 SUMMARY

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In the large global organizations the compensation plays a critical role to attract, motivate and retain the talent. The approaches of global compensation management are; salary level in host country approach, negotiation approach, global approach, buffet approach, cluster system approach, global approach, performance based approach, double home country salary and living compensation at host country approach, and balance sheet approach. While creating an international compensation package some of the points to be considered, they are; factor in living costs, understand insurance guidelines, be clear on tax rules and regulations, determine the currency that employee will be paid in.

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## 20.8 KEY WORDS

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Expatriates,

Social Security,

Equity Compensation,

Stock Options

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## 20.9 SELF-ASSESSMENT QUESTIONS

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1. Explain the various approaches to international compensation.
2. Illustrate compensation practices across the countries.
3. Examine the social security systems across the countries.
4. Identify the emerging issues in global compensation.

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