LOVELY PROFESSIONAL UNIVERSITY

GLOBAL HRM

Edited By

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SYLLABUS

Global HRM

Objectives: This course is designed to make the student manage the following issues with respect to expatriate employees in MNC's and other organizations employing professionals from different countries. On completion of this course, student will be able to:

1. Take decisions regarding recruiting methods, selection procedures and staffing decisions for expatriate employees.
2. Design a training program using an effective framework for evaluating training needs, designing a training program, and evaluating training results.
3. Properly interpret salary survey data, design a pay structure and monitor the implementation of performance-based pay system and design employee benefit schemes.

Sr. No.	Topics
1.	Introduction to global HRM drivers of globalization, variables that moderate differences between HRM and GHRM. Global HRM trends and future challenges: Ethics in international business, strategies IHRM.
2.	The organisation context: The path of global status and control mechanism. Sustaining international business operations, Globalization emerging global economy, globalisation of market, production investment and technology.
3.	Recruiting and selecting staff for international assignment: issues in staff selection, factors Moderating performance, selection criteria, dual – career couples, re-entry and career issues: the repatriation process, multinational responses, designing a repatriation programme.
4.	Training and development: role of expatriate training, pre-departure training, developing staff through international assignment.
5.	International compensation: approaches of international compensation, key components of an International compensation programme, executive compensation.
6.	Global HR issues in the host context: standardization and adaption of work practices, retaining, developing and retrenching staff, language standardization, monitoring HR practices.
7.	International industrial relations: issues, responses of trade unions to multinational, regional Integration.
8.	Multinational performance management: Challenge, performance management and performance appraisal of international employees, appraisal of HCN employees.
9.	HRM in cross border merges and acquisitions: Motives behind mergers and acquisitions, HR Interventions.
10.	Understanding human behaviour in global perspective – issues in organization culture, cultural diversity at work, motivation and communication across culture, cross cultural leadership, multi cultural teams. Comparison of Indian HRM with those of UK, USA, Japan and China.

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Unit 1: Introduction to Global HRM

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Objectives

After studying this unit, you will be able to:

- Define Global Human Resource Management
- Discuss about the approaches and objectives of GHRM
- Describe the variables that moderate differences between HRM and GHRM
- Explain the drivers of globalisation
- Describe the benefits of Globalisation to governments, organisations, and people

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Introduction

Globalisation is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. According to the Levin Institute, the term globalisation refers to the increasing connections people, companies and states are forming around the world. The process of forming social and economic ties across vast distances is nothing new historically; however, technological improvements and liberal trade agreements have increased these connections greatly in contemporary times. Advances in transportation and telecommunications infrastructure, including the rise of the Internet, are major factors in globalisation, generating further interdependence of economic and cultural activities. With globalisation, companies moving out of political boundaries have also enhanced the need for human resource functions to go global.

In this unit, we will learn about Global HRM, the drivers of globalisation and also the variables that moderate differences between HRM and GHRM.

1.1 Global HRM

With the advent of globalisation, organisations – big or small have ceased to be local, they have become global! This has increased the workforce diversity and cultural sensitivities have emerged like never before. International dimensions of business and the globalisation of business have a significant impact on human resource management. All this led to the development of Global Human Resource Management.

HRM refers to those activities undertaken by an organisation to utilise its human resources effectively. Human resource management (HRM) as a business practice comprises several processes, which used together are supposed to achieve the theoretical goals mentioned above. These practical processes include:

- Workforce planning
- Recruitment (sometimes separated into attraction and selection)
- Induction and orientation
- Skills management
- Training and development
- Personnel administration
- Compensation in wage or salaries
- Time management
- Travel management (sometimes assigned to accounting)
- Payroll (sometimes assigned to accounting)
- Employees benefits administration
- Personnel cost planning
- Performance appraisal

Global HRM is the process of recruiting, allocating and effectively utilising the human resource in multinational corporations across the national boundaries. Firms operating in international markets face different conditions and competitions. Multinationals are characterised by an interdependence of resources and responsibilities across all business units regardless of national boundaries. These companies have to cope with large flows of components, products, resources,

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people and information among their subsidiaries and this demands a complex process of coordination and cooperation involving strong cross-unit integrating devices, a strong corporate identity and a well developed worldwide management perspective. National cultural traits also play a critical role in the conduct of business by influencing customer preferences and the values, beliefs and behaviour of employees. Thus, culture affects both internal and external perspectives of management, including the cost of doing business and its results. People play a key role in any type of business activity but their role has become very critical in the new economy and service sector.

Even those organisations who consider themselves immune to transactions across geographical boundaries are connected to the wider network globally. They are in one way or the other dependent upon organisations that may even not have heard about. There is interdependence between organisations in various areas and functions.

The preliminary function of global Human Resource Management is that the organisation carries a local appeal in the host country despite maintaining an international feel. All HRM functions are carried out in a global context.

Example: Any multinational/international company would not like to be called as local, however the same wants a domestic touch in the host country and there lies the challenge.

The field of Global Human Resource Management has been characterised by three broad approaches.

1. Firstly, it emphasises cross-cultural management approach and examining human behaviour within organisations from an international perspective.
2. Secondly, a comparative industrial relations and HRM literature seeks to describe compare and analyse HRM systems in various countries.
3. Thirdly, to focus on aspects of HRM in multinational firms.

1.1.1 Objectives of Global HRM

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

1. Create a local appeal without compromising upon the global identity.
2. Generating awareness of cross cultural sensitivities among managers globally and hiring of staff across geographic boundaries.
3. Training upon cultures and sensitivities of the host country.

Did u know?

1. Licensing – a technique of market entry wherein the firm do not bear the costs and risks of entering into the foreign market on its own but generate revenue from the royalties after the transfer of technological know-how.
2. Joint venture – a cooperative agreement between two firms to enter into a new market jointly.
3. The wholly-owned subsidiary – A subsidiary whose parent companies owns percentage of its common stock.

The strategic role of Human resources Management in such a scenario is to ensure that HRM policies are in tandem with and in support of the firm's strategy, structure and controls.

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Specifically, when we talk of structures and controls the following become worth mentioning in the context of Global HRM.

- ***Decision Making:*** There is a certain degree of centralisation of operating decision making. Compare this to the International strategy, the core competencies are centralised and the rest are decentralised.
- ***Co-ordination:*** A high degree of coordination is required in wake of the cross cultural sensitivities. There is in addition also a high need for cultural control.
- ***Integrating Mechanisms:*** Many integrating mechanisms operate simultaneously.

1.1.2 Expatriates

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

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

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

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

There are several advantages and disadvantages of using expatriate employees to staff international company subsidiaries. Advantages include, permitting closer control and coordination of international subsidiaries and providing a broader global perspective. Disadvantages include high transfer costs, the possibility of encountering local government restrictions, and possibly creating a problem of adaptability to foreign environments.

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

1.1.3 Types of International Employees

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

Parent Country Nationals (PCNs): PCNs are managers who are citizens of the country where the MNC is headquartered. In fact, sometimes the term 'headquarter's nationals' is also used. These managers are commonly called expatriates or, simply, exports, which refers to those who

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

Host Country Nationals (HCNs): HCNs are local managers who are hired by the MNC. There are many reasons for hiring them at the lower or middle-level ranks. Many countries require the MNC to hire local talent as part of opening their markets to MNCs. For example, in Brazil, two-thirds of employees in any foreign subsidiary have to be Brazilian nationals. In India too, before approving joint venture agreements, the government restricts the number of expatriates to be employed, primarily to limit the foreign exchange outflow and to prepare Indian nationals to undertake the responsibility at a future time.

PCNs fill usually top positions, but this is not always the case. For example, companies following the multi-domestic philosophy or polycentric approach would select most positions, including top ones, from the host country, but usually after starting the operations.

Example: Hindustan Lever Ltd., a subsidiary of the Unilever group in India is currently headed by an Indian.

Tung (1981) identified four reasons for use of host country managers:

1. These individuals are familiar with the culture;
2. They know the language;
3. They are less expensive and know the way things are done, the rules of local market and how to get things done or who can influence; and
4. Hiring them is good public relations.

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

1. These people have the necessary expertise,
2. They were judged to be the best ones for the job.

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

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

1.1.4 Model of International HRM

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

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

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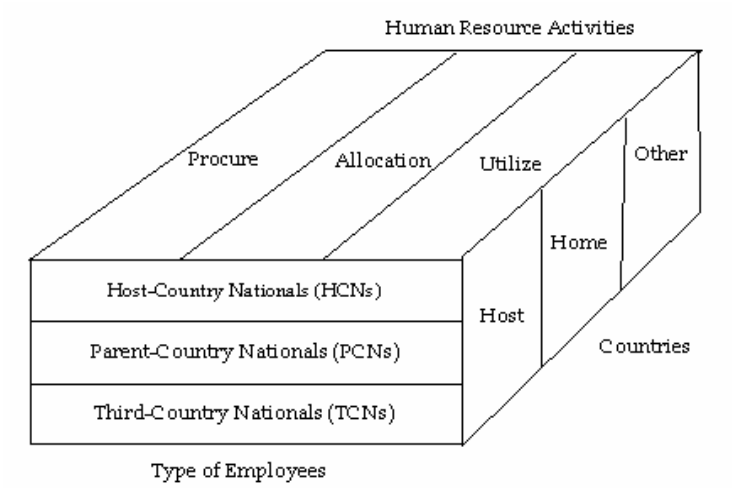
2. ***The three national or country categories involved in international HRM activities:*** The host-country where a subsidiary may be located, the home (parent) country where the firm is headquartered, and 'other' countries that may be the source of labour or finance.

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

Example: IBM employs Australian citizens (HCNs) in its Australian operations, often sends U.S. citizens (PCNs) to Asia-Pacific countries on assignments, and may send some of its Singapore employees on an assignment to its Japanese operations (as TCNs).

Figure 1.1: Model of International HRM



Source: Adapted from P. V. Morgan, 1986, International Human Resource Management

Morgan defines international HRM as the interplay among these three dimensions – human resource activities, types of employees, and countries of operation. International HRM involves the same activities as domestic HRM (example, procurement refers to HR planning and staffing); however, domestic HRM is involved with employees within only a single national boundary. The complexities of operating in different countries and employing different national categories of workers are a key variable that differentiates domestic and international HRM, rather than any major differences between HRM activities performed.

Notes **The Multinational Model**

The interesting aspect of working internationally is that we have to work with people who have different cultural heritages. Cultural differences should be taken into account when communicating and interacting across nations and across cultures within nations. Although multinational companies are supranational in operations and strategy, people within them do not necessarily share the same cultural values and views on people and life. The multinational model is built on the premise that it is necessary to understand cultural differences, rather than trying to smooth them over or override them. For example, companies like IBM may have a strong corporate culture, but one of the aspects that the

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work of Hofstede (1980a) demonstrated was that within IBM, there is wide cultural variation across nations.

Hofstede's work focuses on 'value systems' of national cultures which are represented by four dimensions:

1. ***Power distance:*** This is the extent to which inequalities among people are seen as normal. This dimension stretches from equal relations being seen as normal to wide inequalities being viewed as normal.
2. ***Uncertainty avoidance:*** This refers to a preference for structured situations versus unstructured situations. This dimension runs from being comfortable with flexibility and ambiguity to a need for extreme rigidity and situations with a high degree of certainty.
3. ***Individualism:*** This looks at whether individuals are used to acting as individuals or as part of cohesive groups, which may be based on the family or the corporation. This dimension ranges from collectivism to individualism (Hui, 1990).
4. ***Masculinity:*** Hofstede (1980a) distinguishes 'hard values' such as assertiveness and competition, and the 'soft' of 'feminine' values of personal relations, quality of life and about caring about others, where in a masculine society gender role differentiation is emphasised.

1.1.5 Approaches to IHRM

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

The four approaches are:

1. ***Ethnocentric:*** Few foreign subsidiaries have any autonomy; strategic decisions are made at headquarters. Key positions at the domestic and foreign operations are held by management personnel of headquarters. These subsidiaries are managed by expatriates from the home country (PCNs).
2. ***Polycentric:*** The MNC treats each subsidiary as a distinct national entity with some decision-making autonomy. Subsidiaries are usually managed by local nationals (HCNs) who are seldom promoted to positions at headquarters. PCNs are rarely transferred to foreign subsidiary operations.
3. ***Geocentric:*** The MNC takes a worldwide approach to its operations, recognising that each part (subsidiaries and headquarters) makes a unique contribution with its unique competence. Nationality is ignored in favour of ability.

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

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

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Above categories refer to managerial attitudes that reflect the socio-cultural environment in which the internationalising firm is embedded. The strategic importance of the foreign market, the maturity of the operation, and the degree of cultural distance between the parent and host country, influence the manner in which the firm approaches a particular staffing decision.

Example: MNC may operate its European interests in a regiocentric manner and its Southeast Asian interests in an ethnocentric way until there is greater confidence in operating in that region of the world.

Task Critically analyse the factors that has contributed to the globalisation of the Indian firms and the advantages of the same.

Self Assessment

Fill in the blanks:

1. HRM refers to those activities undertaken by an organisation to utilise its ..... resources effectively.
2. Global HRM aims to create a local appeal without compromising upon the ..... identity.
3. A high degree of ..... is required in wake of the cross cultural sensitivities.
4. Regiocentric is the geographic strategy and structure of the multinational. Personnel may move outside their countries but only ..... the particular geographic region.
5. Key positions at the domestic and foreign operations are held by management personnel of headquarters, in ..... approach.

1.2 Drivers of the Globalisation

Globalisation involves the diffusion of ideas, practices and technologies. It is something more than internationalisation and universalisation. It isn't simply modernisation or westernisation. It is certainly not only the liberalisation of markets. Anthony Giddens (1990: 64) has described globalisation as 'the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa'. This involves a change in the way we understand geography and experience localness. As well as offering opportunity it brings with considerable risks linked, for example, to technological change. Globalisation, thus, has powerful economic, political, cultural and social dimensions.

Though several scholars place the origins of globalisation in modern times, others trace its history long before the European age of discovery and voyages to the New World. Some even trace the origins to the third millennium BCE. Since the beginning of the 20th century, the pace of globalisation has proceeded at an exponential rate.

In 2000, the International Monetary Fund (IMF) identified four basic aspects of globalisation: trade and transactions, capital and investment movements, migration and movement of people and the dissemination of knowledge.

Key drivers of globalisation:

- Market Drivers

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- Costs Drivers
- Technology Drivers
- Government Drivers
- Competitive Drivers

1.2.1 Market Drivers

One of the primary drivers of globalisation has been in respect to market forces, whereby many consumer goods and services are now universally available, no matter one's geographic location or social setting. As a result of international marketing campaigns and corporate brand promotions, consumer desires and lifestyles around the world are increasingly converging.

As corporations pursue growth through globalisation, they have encountered new challenges that impose limits to their growth and potential profits. Corporate social responsibility helps them sustain a competitive advantage by using their social contributions to provide a subconscious level of advertising.

The market forces aiding the process of globalisation are:

- Per capita income converging among industrialised nations
- Convergence of lifestyles and tastes
- Organisations beginning to behave as global consumers
- Increasing travel create global consumers
- Growth of global and regional channels
- Establishment of world brands
- Push to develop global advertising

Globalisation of markets: It refers to the merging of national markets into one huge global marketplace. Now selling internationally is easier due to falling barriers to cross-border trade. A company doesn't have to be the size of these multinational giants to facilitate and benefit from the globalisation of markets. They can offer a standard product to the worldwide but it is not possible as there are very significant differences that exist between national markets like consumer tastes, preferences, legal regulations, cultural systems. These differences require that marketing strategies in order to match the conditions in a country.

Example: Wal-mart still needs to vary their products from country depending on local tastes and preferences. McDonalds when entered into Indian market has to bring the changes in their menu and product preparation as per the Indian people requirements.

Globalisation of production: It refers to the sourcing of goods and services from locations around the world to take advantage of national differences in the cost and quality of factors of production. The idea is to compete more effectively offering a product with good quality and low cost.

Example: Nike is considerate one of the leading marketers of athletic shoes and apparel on the world. The company has some overseas factories which have achieved a super production with low cost. Unfortunately Nike has been a target of protest and persistent accusations that its products are made in sweatshops with poor working conditions. The company has signalled a commitment to improving working conditions, but in spite of the fact, the attacks continue.

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Falling barriers to trade and investment: The falling of barriers to international trade enables firms to view the world as their market. The lowering of barrier to trade and investments also allows firms to base production at the optimal location for that activity. Thus, a firm might design a product in one country, produce a component parts in two other countries, assemble the product in another country and then export the finished product around the world. The lowering of trade barriers has facilitated the globalisation of production. It has also attracted the Foreign Direct Investment which is playing an increasing role in the global economy.

Technological innovation: Technological changes have achieved advances in communication, information processing and transportation technology, including the internet and the World Wide Web (www). The most important innovation has been development in the microprocessors after that global communications have been revolutionised by developments in satellite, optical fibre, and wireless technologies, and now the internet and the www. The rapid growth of the internet and the associated www is the latest expression of this development. Besides, innovations have occurred in the field of the transportation technology.

Economic globalisation: Economic globalisation is the increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology and capital. Whereas the globalisation of business is centred around the diminution of international trade regulations as well as tariffs, taxes, and other impediments that suppresses global trade, economic globalisation is the process of increasing economic integration between countries, leading to the emergence of a global marketplace or a single world market. Depending on the paradigm, economic globalisation can be viewed as either a positive or a negative phenomenon.

Economic liberalisation: Economic liberalisation in India is the ongoing economic reforms in India that started in 1991. As of 2009, about 300 million people—equivalent to the entire population of the United States—have escaped extreme poverty.

Example: The development of commercial jet aircraft has reduced the time needed to get from one location to another. Now New York is closer to Tokyo than ever.

Did u know? Economic globalisation comprises the globalisation of production, markets, competition, technology, and corporations and industries. Current globalisation trends can be largely accounted for by developed economies integrating with less developed economies, by means of foreign direct investment, the reduction of trade barriers as well as other economic reforms and, in many cases, immigration. Measurement of economic globalisation focuses on variables such as trade, Foreign Direct Investment (FDI), portfolio investment, and income. However, newer indices attempt to measure globalisation in more general terms, including variables related to political, social, cultural, and even environmental aspects of globalisation.

Example: Chinese economic reform began to open China to the globalisation in the 1980s. Scholars find that China has attained a degree of openness that is unprecedented among large and populous nations, with competition from foreign goods in almost every sector of the economy. Foreign investment helped to greatly increase quality, knowledge and standards, especially in heavy industry. China's experience supports the assertion that globalisation greatly increases wealth for poor countries. As of 2005–2007, the Port of Shanghai holds the title as the World's busiest port.

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1.2.2 Cost Drivers

- Continuing push for economies of scale
- Accelerating technological innovation
- Advances in transportation
- Emergence of newly industrialised countries with productive capability and low labour costs
- Increasing cost of product development relative to market life

1.2.3 Technology Drivers

Technology has been the other principal driver of globalisation. Advances in information technology, in particular, have dramatically transformed economic life. Information technologies have given all sorts of individual economic actors: consumers, investors, businesses; valuable new tools for identifying and pursuing economic opportunities, including faster and more informed analyses of economic trends around the world, easy transfers of assets, and collaboration with far-flung partners.

Multinational corporations develop global information systems for global data processing and decision-making. The Internet provides a broad area of services to business and individual users. Because the World Wide Web (WWW) can reach any Internet-connected computer in the world, the Internet is closely related to global information systems. A global information system is a data communication network that crosses national boundaries to access and process data in order to achieve corporate goals and strategic objectives.

Across companies and continents, information standards ensure desirable characteristics of products and services such as quality, environmental friendliness, safety, reliability, efficiency and interchangeability at an economical cost. For businesses, widespread adoption of international standards means that suppliers can develop and offer products and services meeting specifications that have wide international acceptance in their sectors. According to the International Organisation for Standardisation (ISO), businesses using their International Standards are competitive in more markets around the world. The ISO develops standards by organising technical committees of experts from the industrial, technical and business sectors who have asked for the standards and which subsequently put them to use. These experts may be joined by representatives of government agencies, testing laboratories, consumer associations, non-governmental organisations and academic circles.

Both a product of globalisation as well as a catalyst, the Internet connects computer users around the world. From 2000 to 2009, the number of Internet users globally rose from 394 million to 1.858 billion. By 2010, 22 percent of the world's population had access to computers with 1 billion Google searches every day, 300 million Internet users reading blogs, and 2 billion videos viewed daily on YouTube.

An online community is a virtual community that exists online and whose members enable its existence through taking part in membership ritual. Significant socio-technical change may have resulted from the proliferation of such Internet-based social networks.

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Caselet

The spread of IT and its applications has been extraordinarily rapid. Just 20 years ago, for example, the use of desktop personal computers was still limited to a fairly small number of technologically advanced people. The overwhelming majority of people still produced documents with typewriters, which permit no manipulation of text and offer no storage. Ten years ago, large and bulky mobile telephones were carried only by a small number of users in just a few Indian cities. Today, half of all Indians use a mobile phone, and in some developing countries, mobile phones are used by more people than the fixed line telephone network.

Source: www.globalenvision.org/library/7/970

1.2.4 Government Drivers

Globalisation took a big step backwards during the First World War, the Great Depression, and the Second World War. Integration of rich countries didn't recover to previous levels before the 1980s.

After the Second World War, work by politicians and various governments led to the Bretton Woods conference, an agreement by major governments to lay down the framework for international monetary policy, commerce and finance, and the founding of several international institutions intended to facilitate economic growth multiple rounds of trade opening simplified and lowered trade barriers. Initially, the General Agreement on Tariffs and Trade (GATT), led to a series of agreements to remove trade restrictions. GATT's successor was the World Trade Organisation (WTO), which created an institution to manage the trading system. Exports nearly doubled from 8.5% of total gross world product in 1970 to 16.2% in 2001. The approach of using global agreements to advance trade stumbled with the failure of the Doha round of trade-negotiation. Many countries then shifted to bilateral or smaller multilateral agreements, such as the 2011 South Korea–United States Free Trade Agreement.

Since the 1970s, aviation has become increasingly affordable to middle classes in developed countries. Open skies policies and low-cost carriers have helped to bring competition to the market.

In the 1990s, the growth of low cost communication networks, induced by several governments, cut the cost of communicating between different countries. More work could be performed using a computer without regard to location. Policy reforms eased out work in the field of accounting, software development, and engineering design.

The forces:

- Reduction of tariff barriers
- Reduction of non-tariff barriers
- Creation of blocs
- Decline in role of governments as producers and consumers
- Privatisation in previously state-dominated economies
- Shift to open market economies from closed communist systems in eastern Europe

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International trade

An absolute trade advantage exists when countries can produce a commodity with less costs per unit produced than could its trading partner. By the same reasoning, it should import commodities in which it has an absolute disadvantage. While there are possible gains from trade with absolute advantage, comparative advantage—that is, the ability to offer goods and services at a lower marginal and opportunity cost—extends the range of possible mutually beneficial exchanges. In a globalised business environment, companies argue that the comparative advantages offered by international trade have become essential to remaining competitive.

Trade agreements, economic blocks and special trade zones

A Special Economic Zone (SEZ) is a geographical region that has economic and other laws that are more free-market-oriented than a country's typical or national laws. "Nationwide" laws may be suspended inside these special zones. The category 'SEZ' covers many areas, including Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial parks or Industrial Estates (IE), Free Ports, Urban Enterprise Zones and others. Usually the goal of a structure is to increase foreign direct investment by foreign investors, typically an international business or a multinational corporation (MNC). These are designated areas in which companies are taxed very lightly or not at all in order to encourage economic activity. Free ports have historically been endowed with favourable customs regulations, for example, the free port of Trieste. Very often free ports constitute a part of free economic zones.

A FTZ is an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities. Only when the goods are moved to consumers within the country in which the zone is located do they become subject to the prevailing customs duties. Free trade zones are organised around major seaports, international airports, and national frontiers—areas with many geographic advantages for trade. It is a region where a group of countries has agreed to reduce or eliminate trade barriers.

A free trade area is a trade bloc whose member countries have signed a free-trade agreement, which eliminates tariffs, import quotas, and preferences on most (if not all) goods and services traded between them. If people are also free to move between the countries, in addition to free-trade area, it would also be considered an open border. The European Union, for example, a confederation of 27 member states, provides both a free trade area and an open border.

Qualifying Industrial Zones (QIZ) are industrial parks that house manufacturing operations in Jordan and Egypt. They are a special free trade zones established in collaboration with neighbouring Israel to take advantage of the free trade agreements between the United States and Israel. Under the trade agreements with Jordan as laid down by the United States, goods produced in QIZ-notified areas can directly access US markets without tariff or quota restrictions, subject to certain conditions. To qualify, goods produced in these zones must contain a small portion of Israeli input. In addition, a minimum 35% value to the goods must be added to the finished product. The brainchild of Jordanian businessman Omar Salah, the first QIZ was authorised by the United States Congress in 1997.

The Asia-Pacific has been described as "the most integrated trading region on the planet" because its intra-regional trade accounts probably for as much as 50–60% of the region's total imports and exports. It has also extra-regional trade: consumer goods exports such as televisions, radios, bicycles, and textiles into the United States, Europe, and Japan fuelled the economic expansion.

The ASEAN Free Trade Area is a trade bloc agreement by the Association of Southeast Asian Nations supporting local manufacturing in all ASEAN countries. The AFTA agreement was signed on 28 January 1992 in Singapore. When the AFTA agreement was originally signed,

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ASEAN had six members, namely, Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. Vietnam joined in 1995, Laos and Myanmar in 1997 and Cambodia in 1999.

Tax havens

A tax haven is a state, country or territory where certain taxes are levied at a low rate or not at all, which is used by businesses for tax avoidance and tax evasion. Individuals and/or corporate entities can find it attractive to establish shell subsidiaries or move themselves to areas with reduced or nil taxation levels. This creates a situation of tax competition among governments. Different jurisdictions tend to be havens for different types of taxes, and for different categories of people and/or companies. States that are sovereign or self-governing under international law have theoretically unlimited powers to enact tax laws affecting their territories, unless limited by previous international treaties. The central feature of a tax haven is that its laws and other measures can be used to evade or avoid the tax laws or regulations of other jurisdictions.

- nil or nominal taxes;
- lack of effective exchange of tax information with foreign tax authorities;
- lack of transparency in the operation of legislative, legal or administrative provisions;
- no requirement for a substantive local presence; and
- Self-promotion as an offshore financial centre.

The objectives of governments and of international organisations behind the promotion of globalisation:

1. ***Free trade, peace, democracy:*** There's no denying the fact that human beings who trade with one another, who allow mutual equity stakes or financial investments to be made, have better relationships both personally and politically. This results in avoiding or at least reducing the risk of armed conflicts. Peace in the world becomes more secure and the developing political systems come under increasing pressure to organise themselves in a more democratic way. It is therefore almost immaterial whether the establishment of peace and democracy is the main objective of the liberalisation of markets, as it is pursued by international organisations (such as IMF, WTO) or by national governments, or whether this is "only" a desirable, more or less automatic consequence of this process. Thus the main motive of the founders of the European Union was reconciliation after the Second World War, since the commercial benefits of the economic and currency union were not altogether clear before. Only later did the "Ceccini Report" try to demonstrate in terms of opportunity cost what the consequences of not uniting would be. They thought that at latest, when the single currency was introduced, the unification of Europe would become irreversible, and thereby long-term peace between the countries involved would be secured. Even the upholding of human rights and the adherence to democratic structures can be more effectively monitored by international organisations, if there are commercial relations between the countries concerned. If additionally, the international conglomerates apply pressure to uphold environmental and social standards in the manufacture of the products which they sell world-wide, then it is likely that there will be further beneficial effects both for environmental standards and for the quality of life among certain parts of the population.
2. ***Prosperity:*** Similarly as companies necessarily work in their own interests, so also governments naturally attempt to create or improve conditions for their own countries and communities of countries by increasing exports (and as little imports as possible) in order to:
   - generate growth in their economies

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- and as a result increasing employment
- prevent or reduce unemployment
- generate additional income for the population, and
- Finally, to increase tax revenue

1.2.5 Competitive Drivers

The globalisation is also affected by the competition. There are various forms of competitive drivers. If there is a strong competition in the industry, the greater is the possibility of the industry to globalise.

- Continuing increases in the level of world trade
- Increased ownership of corporations by foreign acquirers
- Rise of new competitors intent upon becoming global competitors
- Growth of global networks making countries interdependent in particular industries
- More companies becoming globally centred rather than nationally centred
- Increased formation of global strategic alliances

1.2.6 Other Drivers

- Revolution in information and communication
- Globalisation of financial markets
- Improvements in business travel

1.2.7 Reasons for the Companies to go Global

The reasons to go global are as follows:

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

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

The objective of being or aiming to be No. 1 in the market is totally logical, considering that in the market economy, as in sport, the motto "winner takes it all" definitely applies: Once a product, brand or a company has become market leader, and not just in its home country, but also in foreign markets, or even worldwide, then its position is self-reinforcing, because that

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sends a message to consumers, that it must be the best product, since "so many consumers throughout the world cannot be wrong". This is because even in the economy as a whole "everybody loves the winner". In selecting the countries to which the business is to be expanded, there is also the objective of being the First In, reflecting the dictum: "second place is first loser". Following on from the fall of the Wall, the expansion into the previously closed-off countries of Eastern Europe has once again demonstrated that the company which enters a market first achieves what are called "first mover advantages" and becomes a synonym for a whole range of products, which makes it possible for long-term market leadership to be achieved.

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

- Unbeatable low prices and low-cost production processes, such as with IKEA or HENNES & MAURITZ
- Unique products (such as with McDonald'S or KELLOGG'S)
- Superior and really extensive advertising or promotion activities, such as with COCA-COLA or WRIGLEY'S
- An extremely cheap distribution concept (as with ALDI)
- Innovative technology (as from MICROSOFT or SONY) which can be applied everywhere in the world
- Or "simply" superior marketing know-how (such as with UNILEVER or NESTLÉ), which makes it easier to enter new markets quickly and successfully

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

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

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

The usage of international media: A further motive for international companies to build distribution as quickly and widely as they can across the whole globe is the possibility only open to such companies of advertising in the relatively inexpensive (in terms of persons contacted) international media (such as CNN or MTV) or to make use of those international sports events such as world championships, which are transmitted globally on TV. When at the final of the Football World Cup in Seoul in 2002, over a thousand million people were sitting in front of their TV screens, these current or potential customers could easily and cheaply be introduced to or at least reminded of international brand names through perimeter boards. And in fact, the list of manufacturers of branded products which used this opportunity read like a "Who's Who" of global companies. This type of advertising is denied to brands which are only available in single countries or continents because of the associated high proportion of wasted contacts.

All the above factors drive the wave of globalisation among the corporates to have an integrated economy.

Caselet

Explaining How a Domestic Company Enters into Global Market

Vernon's (1966) product life-cycle provides some insight as to how a domestic firm is usually drawn into a global market. Consider how a small food company in Malaysia went through the cycle:

Stage 1: ARK Food Services, Ltd. was founded in 1984. Its business was to provide frozen vegetables, such as potatoes, peas, cabbage, carrots, etc., in plastic bags which could be cooked within minutes after taking them out of the refrigerator. The owner's thinking was that, since a large number of housewives would be entering the job market, they would prefer this type of product to save time. This local focus worked for a while, and then.

Stage 2: The Company began expanding into other regions of the country. As the volumes grew, it became apparent that the company had to set up facilities in at least two other regions. The firm started thinking about further expansion.

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Stage 3: An American company in the same line of business approached for a joint venture arrangement with an array of new, but related products, all of which could be merchandised through the same distribution channels. The offer was too good to be true.

Stage 4: The Company expanded its operations into several Pacific Rim nations while consistently maintaining an above average rate of return.

Source: Rao, P.L. (2008). International Human Resource Management. First Edition. Excel Books. New Delhi.

Notes A similar perspective has provided by Chandler (1962), who suggested the following progression of firm's growth:

1. ***Expansion of volume:*** Results in an increase in sales within the existing products.
2. ***Geographic expansion:*** Allows the firm to operate in distinct markets with existing products.
3. ***Vertical integration:*** Through the absorption of suppliers of raw materials and/or coming closer to end consumers through acquisition of retail outlets.
4. ***Product diversification:*** By developing new products or business, this may or may not be related to the firm's dominant business.

Self Assessment

Fill in the blanks:

6. In 2000, the International Monetary Fund (IMF) identified ……. basic aspects of globalisation.
7. Convergence of lifestyles and tastes of people world wide acts as …… forces for globalisation.
8. Globalisation of markets refers to the …… of national markets into one huge global marketplace.
9. Technology has also been a …….. driver of globalisation.
10. A …… is a state, country or territory where certain taxes are levied at a low rate or not at all.

1.3 Variables that Moderate Differences between HRM and GHRM

The variables that moderate differences between HRM and GHRM are identified as:

- Complexity involved in operating in different countries, varied nationalities of employees
- The different Cultural Environment
- The industry or industries with which the MNC is involved
- Attitudes of Senior Management
- Extent of reliance of MNC on home country domestic market

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There is a wide difference between HRM and global HRM. The international dimensions may bring with it a host of issues, which the domestic HR function would not normally get involved in. The distinction between global HRM and HRM are:

1. Being responsible for a greater number of functions and activities, such as the selection, training and management of international assignees.
2. Having to expand one's area of expertise to include a much broader knowledge of foreign country employment laws and global organisation designs.
3. Having to get much more closely involved with employees' lives as the firm moves employees to foreign assignments. For example, collecting information and furnishing to visa authorities about Aids or marital status of employees.
4. Being involved with a greatly expanded and constantly changing mix of employees (from the host country and foreign locales), adding considerable diversity and complexity to the HR tasks.
5. Having to cope with more external influences; for example, having to consider the impact of foreign cultures and laws.
6. Having to face greater exposure to problems and liabilities (for example, making mistakes in expatriate assignments can cost as much as US$4 million per assignee). The accumulated direct and indirect costs can be huge.
7. Additional responsibilities like translation of language, both at headquarters and at the subsidiary level, organising schooling and housing for expatriates and providing administrative services.
8. Management of differential compensation due to variety of allowances and adjustments.
9. More emphasis on activities like international relocation and orientation, both pre-departure and post-departure cultural training. Knowledge of international taxation, rate of inflation and cost of living, including currency fluctuation.
10. Diversity management, like managing people from different cultural and political backgrounds and gender differences.
11. More contacts with government officials for obtaining visas, tax certificates, fixing of meetings and so on.
12. More coordination and travel to assess performance of expatriates and solve problems.
    (a) More risk management as threats from terrorists, kidnappers and protecting intellectual property rights of firms.
    (b) More public relations work to enhance the multinationals image and deal with human rights and other NGOs and interest groups operating in different countries.

Task Make a list of at least ten companies operating in India. Now find out which of them are belonging to India and which are from other countries.

1.4 Employee Transfers

Transfer refers to the shifting of employees form one job to another within the same organization where salary, responsibilities and category of the new job and the previous job are almost same.

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Transfer of an employee can be done in other department of the same plant or office or to the same department of plant or office located in other region/city.

1.4.1 Reason/Objectives for Transfer

The reasons for employee transfer are as follows:

- Transfer can be done on the request of employee due to personal reason like family problem or health problem.
- Due to HR policy which states that one employee can work in department or place for specific time period.
- Transfers are common in the organizations where the work load varies timely.
- If an employee is not able to do the work or job assigned effectively he can be transferred to the other job where he can use his skills properly according to his interest and abilities.
- Departmental vacancies can be filled with transfer of employees from overstaffed department.
- Employees can be transferred to the position or department with the higher priority workload.

1.4.2 Types of Transfer

The types of transfers are as follows:

- ***Production Transfer:*** When the transfers are being made for filling the position in such departments having lack of staff, from the departments having surplus manpower it is called production transfer. It prevents the layoffs form the organization. Also it is good to adjust existing staff rather than to hire the new one.
- ***Remedial Transfer:*** Remedial transfer refers to rectification of wrong selection or placement of employees. If the employee can adjust himself in the given job he can be transferred to the job where he can use his skills and abilities accordingly.
- ***Versatility Transfer:*** Such transfers are done to increase the versatility in the employees so that he can work different kind of jobs. This is done by transferring employee to different jobs closely related in same department or process line.. This is used as a training device. It helps employee to develop him and he is equipped for the high responsibility jobs as he is having knowledge of the whole process.
- ***Shift Transfer:*** In many multi-shifts jobs such as Call centres employees are transferred from one shift to another due to their personal reasons like health problem or evening college for higher studies or any family problems.
- ***Lateral Transfer:*** An employee is transferred to another area or department with the same title, or the same salary range, if the title is different. No immediate salary action is to be taken. The base salary of the transferred employee will be reviewed during the normal common review process.
- ***Voluntary Transfer:*** When an employee voluntarily elects to apply for a position and is selected for the job which has a lower salary range than their current position. When an employee actively volunteers to accept an open position in a lower salary range because of a position elimination or Departmental reorganization. The employee's base salary should be established within 10% of the new job's salary range, not to exceed the salary range maximum of the new position.

Self Assessment

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State whether the following statements are True or False:

11. The attitude of Middle Management is a variable that moderates differences between HRM and GHRM.
12. The different cultural environment is also a variable that moderates differences between HRM and GHRM.
13. Knowledge of international taxation, rate of inflation and cost of living, including currency fluctuation, are to be maintained in GHRM.
14. HRM considers the impact of foreign cultures and laws.
15. In GHRM, more contacts with government officials for obtaining visas, tax certificates, fixing of meetings are maintained.

Case Study

Global Thrust of Aditya Birla Group

A decade has passed since Kumar Mangalam Birla took over in 1996 the reigns of the Aditya Birla group, when he was just 28 years old. Over the last ten years, not only has he emerged a leader in his own right, quietly but surely, he has reinvented the group with a definitive global thrust. Recognition of this was evident recently even as he narrowly missed the World Entrepreneur of the Year Award of Ernst & Young in a hot contest at Monte Carlo in 2006. Consider the growing global contours of the group today. It is:

1. The world's largest Viscose Staple Fibre producer
2. The world's largest single location palm oil producer
3. The world's third largest producer of insulators
4. The largest producer of carbon black
5. The 11th largest cement producer
6. The world's largest single location copper smelter
7. The world's most cost-efficient aluminium and copper producers

The transition in the last ten years from a domestically-focused commodities giant to a global conglomerate is also reflected in the numbers. The group turnovers grew from $1.8 billion to about $12 billion. It recorded a healthy growth rate of 15 per cent on an average in the last ten years, even as it recorded a high 22 per cent each year, in the last four years.

This increasing growth momentum came from each of its business segments including metals, cement, mining and the new economy like telecom, apparel and financial services.

The group has manufacturing facilities in 10 countries. Its early presence was largely in South East Asian countries. Today, it has significant investments in Egypt, Canada, Australia, China and Laos. In fact, about 30 per cent of its overall turnover comes from overseas operations, and more than 12,000 of the group's 72,000 employees come from 20 nationalities. While India will remain important, China is also on Kumar Mangalam's radar.

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The global journey has not been very easy. As the company moves from being just an India-focused group, one of the challenges it constantly faces is to establish its credibility as a global multinational. Consider: A new acquisition in Canada in 2005. Its pulp and fibre business inked an agreement with the province of New Brunswick in Canada, establishing a new company, AV Nackawic Pulp Plant. As part of the acquisition process, the team needed to make presentations to groups of the local community of the mill township of Nackawic, whose livelihood depended, to a large extent, on restarting the pulp plant. There were searching questions from local unions, the provincial government and employees, but the team was able to effectively allay their concerns. Starting from a position of scepticism, by the end of the process, the employees of Nackawic were convinced that they would rather work for an Indian multinational with credibility, than for a local company that presided over its shutdown last year. Finally, the Indian acquisition team was taken to the provincial Parliament, where it received a standing ovation.

Indeed, this acquisition was important for the Aditya Birla group. The strategy was to use this as a captive source of high quality pulp for its fibre units in India, Thailand and Indonesia. With a capacity of 180,000 tonnes per annum, this acquisition is expected to enhance its global competitiveness in the fibre business.

For the future, the group wants to be in the Fortune 500 list by 2010. It needs to grow at an average 15 per cent in dollar terms over the next seven years. It has set itself tall global plans. In rayon fibre, it wants to be the number one global player with a market share in excess of 30 per cent. In non-ferrous metals, it plans to be the largest integrated aluminium player in Asia with significant presence in downstream customer-interactive business. In cement, it targets to remain as one of the largest players in India and look selectively at other attractive markets to diversify its global reach. And in carbon black, its target is to be one of the top commanding presence in all significant world markets.

Questions

1. How did Aditya Birla Company move from India-focused group to global MNC?
2. What factors can contribute Aditya Birla Company to enter into Fortune 500 group?
3. Can Kumar Mangalam Birla make the higher global mark?

Source: Indian Management, December 2006

1.5 Summary

- Globalisation is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture.
- Advances in transportation and telecommunications infrastructure, including the rise of the Internet, are major factors in globalisation, generating further interdependence of economic and cultural activities.
- HRM refers to those activities undertaken by an organisation to utilise its human resources effectively.
- Even those organisations who consider themselves immune to transactions across geographical boundaries are connected to the wider network globally.
- Globalisation is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture.

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- Advances in transportation and telecommunications infrastructure, including the rise of the Internet, are major factors in globalisation, generating further interdependence of economic and cultural activities.
- HRM refers to those activities undertaken by an organisation to utilise its human resources effectively.
- Even those organisations who consider themselves immune to transactions across geographical boundaries are connected to the wider network globally.
- Globalisation involves the diffusion of ideas, practices and technologies. It is something more than internationalisation and universalisation.
- Key drivers of globalisation are market drivers, costs drivers, technology drivers, government drivers and competitive drivers.

1.6 Keywords

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

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

Free Trade Zones (FTZ): A FTZ is an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities.

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

ISO: The International Organisation for Standardisation is an international standard-setting body promulgates worldwide proprietary, industrial, and commercial standards. It was founded on February 23, 1947, the organisation.

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

Parent Country Nationals (PCNs): PCNs are managers who are citizens of the country where the MNC is headquartered.

Third Country Nationals (TCNs): TCNs are managers who are citizens of countries other than the one in which the MNC is headquartered or the one in which it is assigned to work by the MNC.

1.7 Review Questions

1. Explain in detail the Global Human Resource Management.
2. Write short notes on:
   (a) Types of International Employees.
   (b) Objectives of Global HRM.
3. Describe the Model of International HRM.
4. Explain the Ethnocentric, Regiocentric, and Polycentric approaches to IHRM.

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5. What do you understand by the drivers of the globalisation?
6. Which market forces drive globalisation?
7. Elucidate the statement 'Technology has been the other principal driver of globalisation'.
8. What is the objective of governments and of international organisations behind the promotion of globalisation?
9. Elucidate on the competitive drivers of globalisation.
10. What are the reasons for the companies to go global?

Answers: Self Assessment

1.	Human	2.	Global
3.	Coordination	4.	Within
5.	Ethnocentric	6.	Four
7.	Market	8.	Merging
9.	Principal	10.	Tax haven
11.	False	12.	True
13.	True	14.	False
15.	True		

1.8 Further Readings

Books

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Unit 2: Cultural Aspect of International Assignments

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Objectives

After studying this unit, you will be able to:

- Define culture and its determinants
- Discuss the issues in organisational culture
- Recognise cultural diversity at work
- Explain how to maintain motivation and communication across culture

Introduction

The interaction of learning within a society produces a body of socially transmitted behaviour which is perpetrated beyond the individual life-span. The term 'culture' is applied to such systems of acquired and transmitted behaviour. Organisational culture is different from world cultures in terms of the languages, beliefs, and foods, which are the source of our identity. This environment not only influences inhabitants and customers, but also the people who work there. So, the organisational culture has to be tuned along with the readjustments that are needed to be made for enhancing the human resource management function in international context.

2.1 Basics of Culture

Culture is defined as that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities acquired by man as a member of society. It is the collective

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programming of the mind which distinguishes the members of one human group from another. So, culture includes systems of values and values are among the building blocks of culture.

Important cultural elements are values, norms, attitudes, folkways and customs. Values form the bedrock of a culture. They provide the context within which a society's norms are established and justified. They may include a society's attitude towards such concepts as individual freedom, democracy, truth, justice, honesty, loyalty, social obligations, collective responsibility, marriage, sex and so on.

1. Norms are further subdivided into two major categories: Folkways and Mores. While folkways define the way people are expected to behave. People who violate folkways are thought of as eccentric or ill-mannered.
2. Mores are norms that are seen as central to the functioning of a society and to its social life. Mores include such factors as indictments against theft, adultery, etc. For example eating cow's meat is viewed critically by Hindu Society. While drinking is common in the US, the same is prohibited in Saudi Arabia and is a punishable offence.
3. Cultural traits are unique aspects of individual cultures. A cultural trait is a custom such as men opening the door for women, a gesture such as namaste.
4. Enculturation is the process of acquiring cultural traits. One acquires cultural traits naturally within one's culture.
5. Diffusion is the process through which cultures change. Each society borrows cultural traits from others, particularly if a newly learned trait seems better than a traditional one. Some sectors of society resist such changes. This is known as cultural lag.
6. If contacts between societies are prolonged, acculturation may occur. Traits that have been borrowed over the short-term become permanently adopted. New customs, devices, gestures and ideas irrevocably change both interacting cultures.
7. Assimilation occurs when immigrants or other newcomers adopt the culture of the society in which they have settled.
8. When people leave their own culture to enter another, they must grapple with unfamiliar and unpredictable events, relationships and objects. Some of these may cause a phenomenon called culture shock.

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

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

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

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National culture influences the extent to which leadership; teams and employee activities are socially valued and supported. The impact of national culture on organisation cultures by distinguishing corporate culture along two axes: equality, hierarchy and orientation to the person – the task, which gives broadly four types of cultures depending on how they think and learn, how they change and how they motivate, reward and resolve conflicts. The four types can be described as follows: (1) the family; (2) the Eiffel Tower; (3) the guided missile; and (4) the incubator. Each of these types of corporate culture is the 'ideal' type. In practice, the types are mixed or overlaid with on culture dominating.

2.1.1 Determinants of Culture

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

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

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

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

2. ***Language:*** This is an essential element which distinguishes one culture from another.

Example: In countries such as Canada and Switzerland, two or more languages are spoken. In China, India and Nigeria with a diversity of populations, several languages are spoken. English is the official language of many countries, such as Australia and Singapore, but the two countries are culturally diverse. English tends to be the business language, while French is seen as the language of diplomacy.

In business communication, the translation from one language to another can result in inaccuracies. The same language may have different terms for the same word.

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

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

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

3. ***Education:*** Learning and sharing cultural values happens through the education system.

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

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2.1.2 Reasons for the Convergence of the Cultures

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

1. Improvements in transport and communications and a huge increase in the number of people visiting foreign countries.
2. Globalisation of media resulting in the same newspaper and magazine article appearing in all nations.
3. Similarities in the tastes and consumption patterns of young people.
4. The operation of multinationals across the world, supplying standardised products and frequently using undifferentiated marketing strategies.
5. A seemingly worldwide increase in consumers' willingness to accept fresh ideas and try new products.
6. Adoption of similar technologies in several countries, creating common work experiences and working methods.

2.1.3 Importance of Cultural Sensitivity to Organisations

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

1. Communicate effectively with customers, suppliers, business associates and partners in other countries and with foreign employees,
2. Conduct negotiations and understand the nuances of the beginning postures of the other parties into a negotiation,
3. Predict trends in social behaviour likely to affect the firm's foreign operations,
4. Understand ethical standards and concepts of social responsibility in various countries,
5. Predict how cultural differences will affect consumer reactions to advertisements and other promotions,
6. Foster relationships between union confederations and employee associations requiring cultural empathy,
7. Understand local government policies and influence it for business promotion,
8. Conduct efficient meetings in different countries and encourage employee participation in management,
9. Understand how people interpret market research and other information.

Caselet

Success of the Electronic Giant-Samsung in Different Countries

Electronics major Samsung was successful in its international operations by integrating itself with the cultural sensitivity. Samsung, the South Korean conglomerate, runs business right across Europe, from Hungary where TVs are

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produced, to Portugal where microchips are made to Germany where cameras are produced. There are operations in the UK and in Slovakia.

Samsung has developed a synthesis of management styles, taking the best from the European and Korean approaches. For example, in Germany the emphasis is given to individual workers as the company recognises that individual ability is high. In South Korea, on the other hand, emphasis is placed on teamwork. A further difference appears when looking at the structural design adopted by the company. A bureaucratic approach is followed in its home country, something that would not find favour in Europe.

Hence in UK and other European countries, the company's structure is flat and authority devolved. Creating an indigenous management style is also part of the company's strategy to make its European operations self-sufficient, based on the need to have fast response time to market changes.

Source: P.L. Rao, International Human Resource Management, First Edition, Excel Books, New Delhi, 2008.

Self Assessment

Fill in the blanks:

1. ……. is an essential element which distinguishes one culture from another.
2. Learning and sharing cultural values happens through the …… system.
3. The …… of a culture refers to designs, forms, colors, shapes, sounds; things conveying the concept of beauty and good taste.
4. Globalisation of media encouraged the convergence of certain aspects of …… among nations.
5. …… are among the building blocks of culture.

2.2 Issues in Organisational Cultures

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

1. Work-related values are not universal;
2. Underlying values persist when a multinational company tries to impose the same norms on all its foreign interests;
3. Local values determine how the headquarters' regulations are interpreted;
4. By implication, a multinational that tries to insist on uniformity is in danger of creating morale problems and inefficiencies.

The four well-known dimensions that Hofstede examines were:

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

Example: Mexico, South Korea and India. In such societies, lower-level employees tend to follow orders as a matter of procedure. Even at higher levels, strict obedience is the practice.

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Power distance is greatest in Malaysia and least in Austria and Israel. The proportion of supervisory personnel is less and the workforce will often consist of highly qualified people in high power distance countries. The salary gap between levels will be higher. Power will be reflected through status symbols. Status will be highly valued and have higher motivational appeal. Management is more by control than by participation.

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

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

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

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

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

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

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

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

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

Countries like Norway, with a low masculinity index, tend to place great importance on cooperation, friendly atmosphere, and employment security. The workplace has a cordial atmosphere and managers give more credit to employees and freedom to act.

Cultures with a high masculinity index like Germany and Spain favour large scale enterprises. Economic growth is more important than conservation of environment. Cultures with high femininity tend to favour small-scale enterprises and place great importance on conservation of environment.

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These cultural dimensions can be used for explaining the differences between various countries and how countries can be described in terms of pairs of dimensions.

Americans have very high individualism and relatively low power distance. They prefer to do things for themselves and are not upset when others have more power than they do. Americans are taught that every one is equal, so individuals having important titles or jobs do not overly impress them. Australians, Canadians, British, New Zealanders have the same basic values and therefore can be clubbed together in one cluster.

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

1. ***Universalism-particularism:*** In some cultures people see rules and regulations as apply universally to everyone, regardless of who they are. In cultures which are more particularist, people see relationships as more important than applying rules that are same for everyone. There is an inclination to apply the rules according to friendship and kinship relations. This has implications for recruitment and promotion policies in organisations in some Asian countries, which may be at variance with practices in countries such as the United States and Britain.
2. ***Achievement-ascription:*** Status is accorded to people on the basis of what they achieve in their jobs and their lives (achievement) or who they are and where they come from such as family background, their school or some other prior factor (ascription). This may influence recruitment and promotion policies which may be at variance with practices in some (but not all) Western cultures. On some measures Austria, Belgium, Spain and Italy are more ascription oriented, and Denmark, Britain and Sweden more achievement oriented.
3. ***Locus of control:*** People tend to believe that what happens to them in life is their own doing (internal locus of control), or they have no or little control over what happens to them (external locus of control), the causes of which are external to them.

Self Assessment

State whether the following statements are true or false:

6. G. Hofstede found that work-related values are universal.
7. G. Hofstede found that a multinational that tries to insist on uniformity is in danger of creating morale problems and inefficiencies.
8. The salary gap between levels is higher in Power distance.
9. People with external locus of control tend to believe that what happens to them in life is their own doing.
10. The workplace has a cordial atmosphere and managers give more credit and freedom to employees to act in countries with a low masculinity index.

2.3 Cultural Diversity at Work Place

Cultural differences affect the organisational work behaviour within the countries and cultures. The knowledge of the culture helps in understanding the beliefs, attitude and orientation of the employees and workers from the countries internationally. Pattern of behaviour and thinking

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is different in different countries due to different cultures. This is a major issue which organisation faces in cross-border deals.

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

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

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

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

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

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

Example: Americans with an orientation for being 'dominant' believe that man can control nature and spend huge amounts on space research, weather control, and biotech, etc. In such dominant countries, conflict is not disapproved of and differences in views are encouraged.

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

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

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

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

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Example: In countries of the Middle East, and in India and China, status in life is derived from birth, age, sex, family, and social connections more than through one's achievement. Where the orientation is towards 'containing' (Japan, Thailand), focus is on self-control. Striving is for balance between feelings and doing.

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

6. Concept of space in the minds of people: How much people value privacy is the other orientation. If people think space is 'public' then a notice that a meeting is in progress is interrupted as a request to stay out. In countries like China, space is more 'public' when doors are closed. People suspect something fishy. In the western countries, space is more 'private'. People like their chambers and always knock before entering others' rooms.

   So, these orientation patterns play a great role in determining and comparing the cultures across nations and help the organisation in designing their strategies accordingly.

Self Assessment

Fill in the blanks:

11. The knowledge of the culture helps in understanding the beliefs, ……. and orientation of the employees and workers from the countries internationally.

12. In the western countries, people like their own chambers and always ……. before entering others' rooms.

2.4 Motivation and Communication across Culture

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

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

Hertzberg's two-factor motivational theory states that hygiene factors which are associated with the environment surrounding the job only de-motivate the employees. The motivators associated with the job itself have the power to motivate the people. But culture again is an influencing factor that motivates and demotivates the employees' behaviour. The highly individualistic, productive-oriented American culture focus is on the job enrichment while in Sweden and Norway, quality of the working life is given more emphasis which acts as a motivating factor for the employees.

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

1. English speaking countries ranked higher on individual achievement and lower on the desire for security.
2. French-speaking countries gave importance to security and to challenging work.
3. Germany ranked highest on security and fringe benefits and highest on "getting ahead."
4. Japan ranked second highest on challenge and lowest on autonomy with a strong emphasis on good working conditions and a friendly working environment.

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

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

Reward system also motivates the individual. But to standardise the reward policy of the MNCs is the biggest challenge especially when the firm functions internationally. Americans prefer to work for organisations that provide merit-based rewards for the individuals, while Japan and Korean workers prefer to group performance for rewards.

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

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

2.4.1 Cross-culture Communication

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

Cross-cultural communication occurs when a person from one culture sends a message to a person from another culture. Cross-cultural miscommunication occurs when the person from the second culture does not receive the sender's intended message. The greater the difference

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between the sender's and the receiver's culture, the greater the chance for cross-cultural mis-communication.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes **Sweating His Way to Success**

An American consultant with a decade of business experience in South Asia arranged for his Chicago consultant to meet with the minister of textiles in Bangladesh. The company had asked for a favourable decision on a complex issue involving garment quota allocations, but was not optimistic about the outcome; a competitor who had made a similar request had seen his application summarily rejected by mid-level bureaucrats in the ministry.

It was sweltering day in Dhaka and the minister's air-conditioner too was not switched on. This caused the visitor considerable discomfort because, at the consultant's insistence he was wearing dark suit with a tie. He sat steaming and sweating while the minister chatted away amiably, cool and comfortable in his white muslin. After an hour and a half of aimless conversation, the minister stood up and with a broad smile informed the petitioner that he had decided to grant his request. The consultant learnt from his contacts in the government that the minister had deliberately not turned on the AC for the meeting. 'His excellence may have been testing,' said the contact.

People from egalitarian societies are often unaware of the importance of status distinctions in hierarchical cultures. They often do not know how to show respect to high-ranking persons from formal cultures that are easily offended by perceived slights. The lesson here is that, when dealing with government officials in formal cultures, it is important to show respect and deference.

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3. ***Rigid Time vs. Fluid Time:*** In rigid-time societies, punctuality is critical, schedules are set in concrete, agendas fixed and business meetings are rarely interrupted. These societies are monochronic for their clock-obsessed, schedule-worshipping cultures.

   While in polychronic cultures, where people place less emphasis on punctuality and are not observed with deadlines. Polychronic cultures do not value scheduling of business meetings. In fact several meetings-within-meetings may be taking place simultaneously.

   Orientation to time varies not only among different countries but often within a given country as well.

Example: In Brazil, temperate Sao Paulo is relatively monochronic whereas Rio de Janeiro is strongly polychronic. Suppose you are an export marketer scheduled to meet your German customer at 9 a.m. the next morning. It is expected that you reach his office at 8:55 a.m. If the same meeting is in Rome, your local counterpart is likely to wait for half an hour after agreed time and greet you as though nothing at all is wrong. And if the meeting is in Sicily (polychronic culture), if your Sicilian counterpart shows up on the day of the meeting, he is considered punctual.

4. ***Expressive vs. Reserved Cultures:*** There are three types of interpersonal communications:

   (a) Verbal communication has to do with words and the meaning of words.

   (b) Para-verbal language refers to how loudly we speak those words, the meaning of silence and the significance of conversational overlap.

   (c) Non-verbal communication/body language is communicating without using any words.

   Expressive people tend to be uncomfortable with more than a second or two of silence during a conversation. People from reserved cultures feel at ease with much longer silences.

Example: Japanese negotiators sit without speaking for what seems like eternity to voluble Mexicans, Greeks, or Americans.

   Conversational overlap refers to the interruption of a speaker by another. While expressive people regard overlap as a normal part of conversation, people from reserved cultures consider overlap extremely rude.

Example: Spanish negotiators interrupt Swedes about five times as often as Swedes interrupt Spaniards. This will cause problems in negotiations unless parties are aware of this cultural trait. Japanese not only take turns to avoid overlap, but also often pause a few seconds before speaking.

   Climate and culture both play a role in sartorial behaviour. In the tropics and in desert countries, businessmen often wear open-necked shirts and cotton trousers. But even in these countries it is advisable to wear a suit or a blazer for the first meeting. For meetings with government officials this formality takes on greater importance. In most other parts of the world, men should wear a dark suit, conservative tie, white shirt and dark socks.

Example: Visit to Latin Europe and Latin America requires special attention to the style and quality of both men's and women's clothes and accessories. In the Middle East, business contacts often judge one by the quality and price of his briefcase, watch, and jewellery. One should wear and carry the best one has. Throughout Asia it is a good idea to wear slip-on shoes

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because custom requires you to remove your footwear when entering temples, people's homes and some offices as well.

In some cultures, the beginning of a relationship is symbolised by the exchange of business cards.

Example: In Japan and Korea, people formally present their cards at the beginning of every first meeting, to the most important member of the team first and then to other members in the descending order of importance. No further exchange with these persons should be made as giving the card a second time means that you have forgotten him or her, and this may be taken as a deliberate insult. These cultures even have etiquette in giving and receiving cards. The card should be presented with the other person's language face-up, in case of bilingual cards. After receiving the card one should read it and place it before oneself during the meeting.

So, cross culture differences should be accounted by the organisations in their culture if they wanted to succeed in the global arena. Ignoring the cultural differences in the business communication can prove fatal for the organisations. Before going for any project or meeting in international assignment, it is imperative for the managers to have a cross-cultural training so that they are aware about the cultural differences and the message which their body language will convey to the other person.

Task Consider that your company is planning to go for a project discussion in Japan. Bring out the communication pattern you will follow while going for the discussions to make that project a success.

Self Assessment

State whether the following statements are true or false:

13. Motivated employee results in the increased productivity and creates personal effectiveness at the workplace.
14. Maslow has identified the four basic needs of the human beings which form a hierarchy.
15. Deal-focused (DF) cultures are task oriented, while relationship-focused (RF) cultures are more people oriented.

Case Study

Ranbaxy Laboratories

Although the global pharmaceuticals war is driven by large doses of R&D, the ₹ 1,065.70 crores Ranbaxy Laboratories' success has been attained through a different route. For his company, CEO Parvinder Singh, has developed capabilities in manufacturing and marketing fanning out into seven developing markets, and growing strengths in product engineering.

Being a low-cost manufacturing is Ranbaxy's highest priority in order to compete with global players in foreign waters. While economies of scale and low-cost research help, much of the advantages come from a holistic approach to costs. Instead of trying to cut

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costs at each stage without factoring in possible increases in downstream costs, the company employs the concept of total activity cost to optimise its expenses. Many of the cost benefits also flow from benchmarking against international competitors. Cost data from the world's four most competitive generic drugs-manufacturers—Mylan and Ivax of the US, Teva of Israel, and Doffar of Italy—are constantly fed to the process design, manufacturing, and product-development teams.

While some of its domestic rivals are fixated on basic research, Ranbaxy is differentiating itself by designing Novel Drug Delivery Systems (NDDS). The NDDS—an unconventional way of administering a drug such as helper compounds or polymer implants—makes differentiation easier to achieve than developing innovative new drugs would. It is also cheaper and quicker, taking between ₹ 72 crore and ₹ 108 crore, and between three and five years to develop, versus an average of ₹ 1,800 crore and between 10 and 12 years for a new drug. Moreover, it offers an opportunity for Ranbaxy to leverage a competence it does possess.

Ranbaxy is actually two companies rolled into one. Globally, it is determinedly focused on generic molecules, and refuses to venture into other areas. That, naturally, gives it a sharp business focus. At home, where its market-share of 5.60% market it is second only to the ₹ 731 crore Glaxo Welcome's 7%. It takes the conventional route of branded products, with seven brands enjoying market shares of over 2.70%.

To make it more difficult for new competitors to enter, Ranbaxy is eschewing the highly competitive pockets in the market. Since almost every generic player keeps blockbuster drugs—which deliver high returns to their inventors during their patent lifetime—in its sights, the consequent flood of generic offerings saturates the market. But by veering away from them and focusing on complex molecules—which attract only one or two competitors—Ranbaxy is counting on the relatively smaller size of its target market to deter new entrants. Confirms Singh: "We aim to make products involving complex chemistry". Moreover, the skills required in its product lines aren't easy to acquire.

In its very choice of product with which to go global-general—lies Ranbaxy's understanding of the competitive environment. The generics business, which has been sparked off by cost-containment pressures from the developed markets, opens up as soon as a patent expires. Typically, generic drugs cost between 50 and 70% less than patented ones, and account for 32% of the total drug market in the US. Since the competition is intense, critical to the business of generics are process capability and manufacturing powers. Understanding these requirements, Ranbaxy has focused its internal development on these two areas.

One of Ranbaxy's greatest strengths lies in the fact that is vertically integrated through five stages of the value chain, which helps it manage cost and quality across the chain. Naturally, that ensures this the benefits from efficiencies can be soaked up from every activity in the chain. Thus, raising capacities is a natural way of maximising the gains from vertical integration. But high capacities also need large-enough markets to sustain them, which is why Ranbaxy operates in 26 different countries. And by raising scale and redesigning processes, Ranbaxy has been able to cut the costs of production of some its key bulk drugs—6APA, 7ADCA, fluoroquinolones, and cephalexin—by half.

For Ranbaxy, the strength in servicing its global customers comes not from deep distribution or selling skills, but from developing relationships with them. Among its major global customers, for instance, are Eli Lilly and Genpharm. What Ranbaxy promises them is exclusive marketing rights for its products, gaining their loyalty in exchange.

Contd...

Notes

Without chasing the chimera of developing new drugs, Ranbaxy uses guerrilla skills. A classic example: it synthesised cefaclor—a complex molecule patented by the $ 7.30 billion Eli Lilly—through an alternative route, becoming the only company in the world to develop a process for the product without infringing on the original patent. Alarmed, Eli Lilly had no choice but to strike a joint venture with Ranbaxy to protect its turf, which allowed the Indian company to access the transnational's distribution network in the US. And Ranbaxy has now perfected the art of developing drugs by setting up teams that work on parallel processes for producing generic drugs.

Having consciously opted out of the mainstream drugs business, Ranbaxy has developed competitive advantages in areas where most large companies are only marginally involved. Applied in the developed markets, it is now targeting that focus will make Ranbaxy's prescription even more potent.

Questions

1. What strategies did Ranbaxy adopt to compete with global players?
2. What generic competitive strategies did Ranbaxy adopt to emerge as one of Asia's top pharmaceutical companies?
3. "Ranbaxy seems to be committed to its mission of becoming a research-based, international pharmaceutical company". Do you agree with this statement? Substantiate your answer.
4. Does the company use leading-edge technology? How does the company develop or acquire such technology? How strong are its research capabilities?

Source: P.L. Rao, International Human Resource Management, First Edition, Excel Books, New Delhi, 2008.

2.5 Summary

- Culture plays a very important role in the success or the failure of the international assignments.
- Culture varies across different nations due to varied beliefs of the people.
- There are various societies that are being formed based on the cross-cultural beliefs.
- In collectivistic societies, people are born into and protected by extended families, to which they give loyalty.
- In individualist societies, people look after themselves and the immediate nuclear family.
- In a masculine society, values are based on material success, money and possessions. Men are expected to be assertive and ambitious, and women tender and concerned with relationships.
- The 'feminine' society has values of caring for others and preservation rather than progress. People and good relationships are more important than money and things.

2.6 Keywords

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

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

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

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

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

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

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

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

2.7 Review Questions

1. "Nationality (culture) had three times more influence on the shaping of managerial assumptions than any of the respondents". Do you agree? Justify.
2. Analyse the impact of the culture on the motivation of the employee's internationally.
3. Being the HR of the international company, can you throw light on the importance of multi cultural teams in the success of the international assignment?
4. Examine the critical issues that may affect the implementation of organisational cultures.
5. "Effective corporate communication is the key to the managers' success internationally". Justify giving examples.
6. Examine the role and relevance of culture in international HRM.
7. Bring out the comparison in HR practices followed in Japan and China giving examples.
8. Analyse how managerial styles may vary depending on the cultural context.
9. Critically analyse the cultural differences across India and USA.
10. Do you think that culture makes an organisation sensitive to operate in international environment? Justify giving example.

Answers: Self Assessment

1.	Language	2.	Education
3.	Aesthetics	4.	Culture
5.	Values	6.	False
7.	True	8.	True
9.	False	10.	True
11.	Attitude	12.	Knock
13.	True	14.	False
15.	True		

Notes

2.8 Further Readings

Books

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Unit 3: Global Status and Control Mechanism in MNCs

Notes

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Objectives
Introduction
3.1 Path to Global Status
3.1.1 Export
3.1.2 Initial Division Structure (Early Stages of Internationalisation)
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Objectives

After studying this unit, you will be able to:

- Describe the path of organisations to global status
- Explain the organisational structure in MNCs
- Describe the control mechanism
- Discuss about the strategic framework

Introduction

The human resource functions do not operate in a vacuum. The shift from a domestic to a global focus affects the HR activities as well as other departments. As a consequence, HR activities are determined by and influence various organisational factors, such as:

1. Stage of internationalisation;
2. Mode of operation used in the various foreign markets;
3. The control mechanism and coordination; and
4. Strategic importance of the overseas operations to total corporate profitability.

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

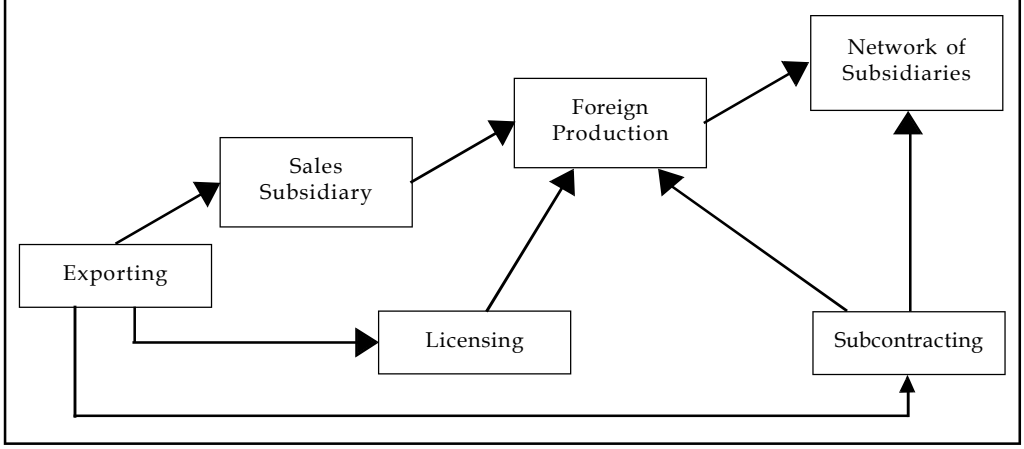
3.1 Path to Global Status

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

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

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

Figure 3.1: Stages of Internationalisation



Source: Dowling et al. (2001) International Resource Management (p. 34)

3.1.1 Export

Exporting is initial stage for the firms entering international operations. It rarely involves much organisational response until the level of export sales reaches a critical point. Exporting may be difficult for service companies (such as legal firms) so that they may be forced to make an early step into foreign direct investment operations (via a branch office, or joint venture).

Exporting often tends to be handled by an intermediary (e.g., an export agent or foreign distributor – usually an HCN, as local market knowledge is critical). As exports sales increase, an export

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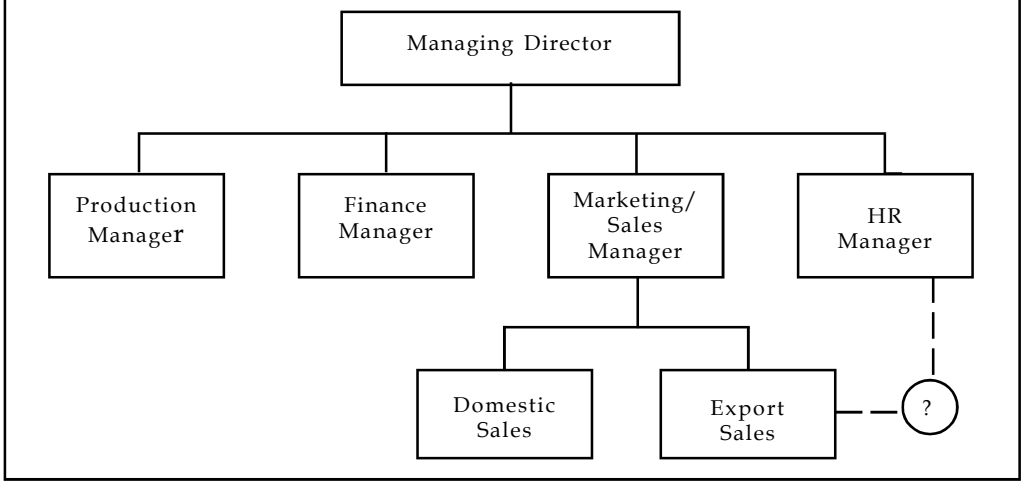
manager may be appointed to control foreign sales and actively seek new markets. This person is commonly from the domestic operations. Further growth in exporting may lead to the establishment of an export department at the same level as the domestic sales department as the firm becomes more committed to or more dependent on, its foreign export sales.

Figure 3.2: Export Department



Source: P L Rao, International Human Resource Management: Test and Cases, First edition, Excel Books, 2008, New Delhi.

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

3.1.2 Initial Division Structure (Early Stages of Internationalisation)

As the firm develops expertise in foreign markets, agents and distributors are replaced by direct sales with the establishment of branch offices in the foreign market countries and the company creates an export division or function at the corporate home office and the export division head directly reports to the CEO.

As international sales increase further, local governments exert pressure on these growing markets for setting up on-site manufacturing facilities which prompts the company to set up a subsidiary and a branch office in the concerned foreign countries. Each subsidiary is responsible for operations within its own geographic area, and the subsidiary manager reports directly to the export division head at the corporate office. PCNs are usually posted to important positions because the firm has more confidence in them to implement proven home office human resource policies and practices. This is known as the ethnocentric approach. The decision to use PCNs leads into exportation of management issues and activities. At this point the HR department becomes actively involved in the personnel aspects of the firm's international operations.

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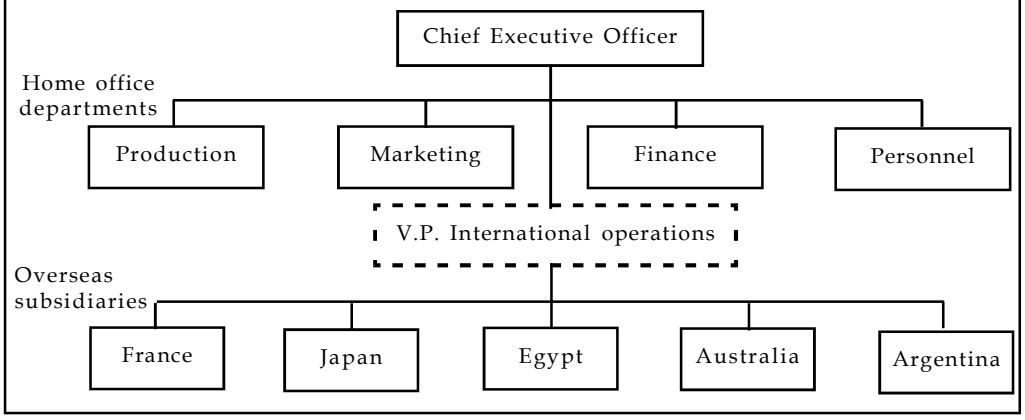
Figure 3.3: Use of Subsidies during Early Internationalisation



Source: International HRM (2006) S.C. Gupta (p. 136)

3.1.3 International Division

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

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

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

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

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

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

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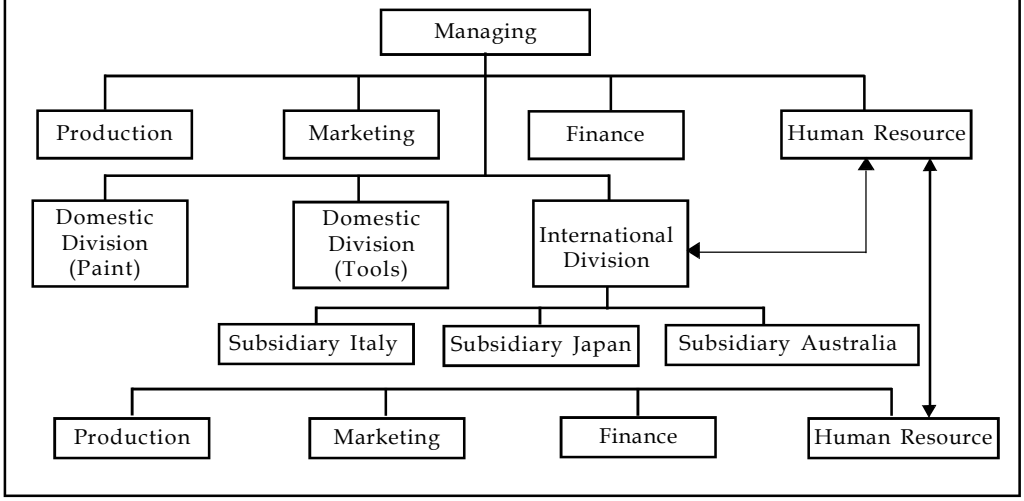
Figure 3.4: International Division



Source: Dowling et al. (2001) International Resource Management (p. 38)

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

3.1.4 Global Product

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

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

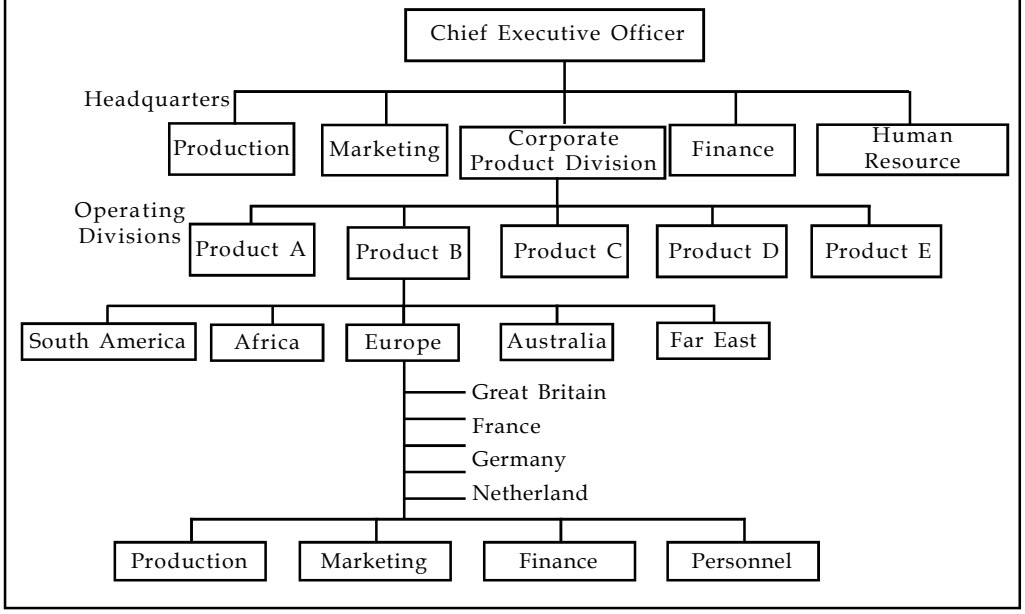
1. The extent to which key decisions are to be made at parent headquarter or at the subsidiary units (centralisation vs. decentralisation), and
2. The type of control exerted by the parent over the subsidiary unit (bureaucratic control vs. normative).

Notes

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

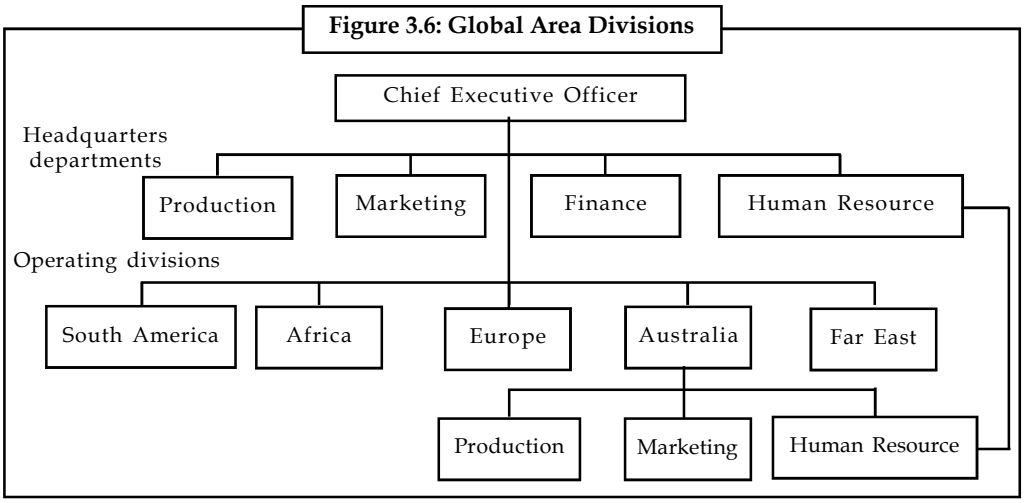
1. ***Product/service based global division:*** In this structure; the company treats each of its major products as distinct Strategic Business Units (SBUs). Divisions/functions at the corporate office are given worldwide responsibility for production, finance, marketing and management of supply chain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

Figure 3.5: Global Product Divisions



Source: Gupta S. C., International HRM (2006) p. 138

Figure 3.6: Global Area Divisions



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

Notes

As part of the process of accommodating subsidiary concerns through decentralisation, the MNC strives to adapt its HRM activities to each host-country's specific requirements; this impacts the corporate HRM function. There is devolution of responsibility for local employee decisions to each subsidiary, with corporate HR staff performing a monitoring role, intervening in local affairs only in extreme circumstances.

Example: In the late-1980s, Ford Australia had a ceiling on its HRM decisions and any decision that involved an amount above that ceiling (such as promotions above a certain salary grade) had to be referred to its regional Headquarters for corporate approval. Expatriate management remained the responsibility of corporate HR staff.

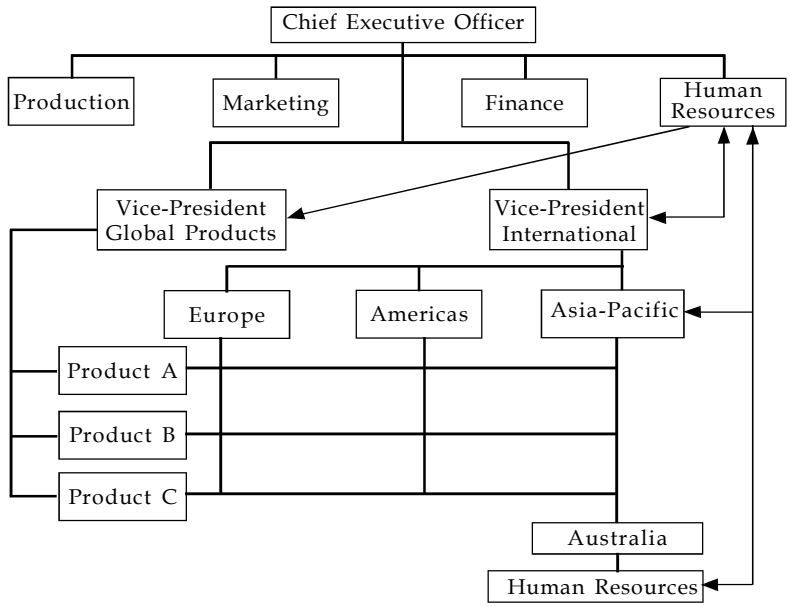
This HRM monitoring role reflects management's desire for central control of strategic planning–formulating, implementing, and coordinating strategies for its worldwide markets. The growth in foreign exposure combined with changes in the organisational structure of international operations results in an increase in the number of employees needed to oversee the activities between the parent firm and its foreign affiliates.

Task Taking the example of any Indian firm, analyse the path which it will follow to become truly global with the changes in the structure and the HR policies.

3.1.5 Global Matrix Structure

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

Figure 3.7: Matrix Structure



Source: Dowling et al. (2001) International Resource Management (p. 43)

Notes

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

Disadvantages of Matrix Structure

1. As the design complexity increases, coordinating the personnel and getting everyone to work towards a common goals often becomes difficult.
2. Some employees experience dual authority, which is frustrating and confusing. So, managers need excellent interpersonal and conflict-resolution skills.

Notes **New Types of Multinational Structures**

Mergers, takeovers, joint ventures strategic alliances give way to newer variations in organisational structure design and these can be of four types:

1. ***Hierarchy:*** It is a structure that recognises a multinational have a number of different kinds of centres apart from headquarter. Each subsidiary centre may be simultaneously a centre and a global coordinator of discrete activities, thus performing a strategic role for itself and for MNC as a whole. Control is less realist on the top-bottom mechanisms of previous hierarchical modes and more reliant on normative mechanisms. HRM rests solely on the ability of the multinational to formulate, implement, and reinforce the required human resource elements. It demands skilful and experienced personnel as well as sophisticated reward and punishment systems in order to develop the normative control mechanisms necessary for effective performance.
2. ***Transnational:*** It is a structure that describes a new organisational form which is characterised by an interdependence of resources and responsibilities across all business units regardless of national boundaries. It tries to cope with the large flows of components, products, resources, people, and information among its subsidiaries and simultaneously recognises the distributed specialised resources and capabilities. It demands a complex process of coordination and cooperation involving strong cross-unit integrating devices, a strong corporate identity, and a well-developed worldwide management perspective. Staff transfers play a critical role in integration and coordination.
3. ***Networked Firm:*** The management of a multi-centred networked organisation is complex. Apart from the intra-organisational network (comprising of headquarters and the numerous subsidiaries), each subsidiary also has a range of external relationships (involving local suppliers, customers, competitors, host governments, and alliance partners). The management of both the intra-organisational and inter-organisational spheres, and of the total integrated network, is crucial to global corporate performance. It involves a less-hierarchical structure, featuring five dimensions: delegation of decision-making authority to appropriate units and levels; geographical dispersal of key functions across units in different countries; de-layering of organisational levels; de-bureaucratisation of formal procedures; and differentiation of work, responsibility, and authority across the networked subsidiaries.

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4. ***Keiretsu:*** A newly emerging organisational arrangement is the keiretsu, which is a vertically integrated group of companies that cooperate and work closely with each other. Example is the Mitsubishi group. This keiretsu consists of 28 core members who are bound together by cross ownership, long-term business dealings, interlocking directorates, and social ties. Many are three flagship firms in the group; Mitsubishi Corporation, which is a trading company; Mitsubishi Bank, which finances the keiretsu's operations; and Mitsubishi Heavy Industries, which is a leading worldwide manufacturer.

Did u know? Chaebol refers to a South Korean form of business conglomerate. They are government-supported powerful global multinationals owning numerous international enterprises. The Korean word means "business family" or "monopoly". There are several dozen large Korean family-controlled, government-assisted corporate groups. Through aggressive governmental support and finance, some have become well-known international brand names, such as Samsung, Hyundai and LG.

Self Assessment

Fill in the blanks:

1. HR activities are determined by and influence various organisational factors, like stage of …….
2. HR activities are determined by and influence by ……. importance of the overseas operations to total corporate profitability.
3. Some firms may use licensing, ……., or other operation modes, instead of establishing their own foreign production or service facilities.
4. ……. is initial stage for the firms entering international operations.
5. Having made the decision to produce overseas, the firm may establish its own foreign production facilities, or enter into a ……with a local firm, or buy a local firm.
6. In product/service based global division structure, the company treats each of its major products as distinct Strategic ……. Units (SBUs).
7. A newly emerging organisational arrangement is the …….., which is a vertically integrated group of companies that cooperate and work closely with each other.

Caselet

BIC World

BIC is a very large manufacturer of razors, lighter, and pens. Recently, it has simplified its operations to run from large super factories that serve large geographical markets. Product distribution is then organised by continent, with country managers reporting to their continental manager. The organisation thus has a matrix structure based on two main lines of communication – (1) by product category, (2) by geographical region. The matrix structure allows combining the benefits of a strong product expertise, together with strong operational structures per geographic area.

Source: http://businesscasestudies.co.uk/business-theory/people/organisation-and-management-structures.html#axzz2HZ1gqE2H

Notes

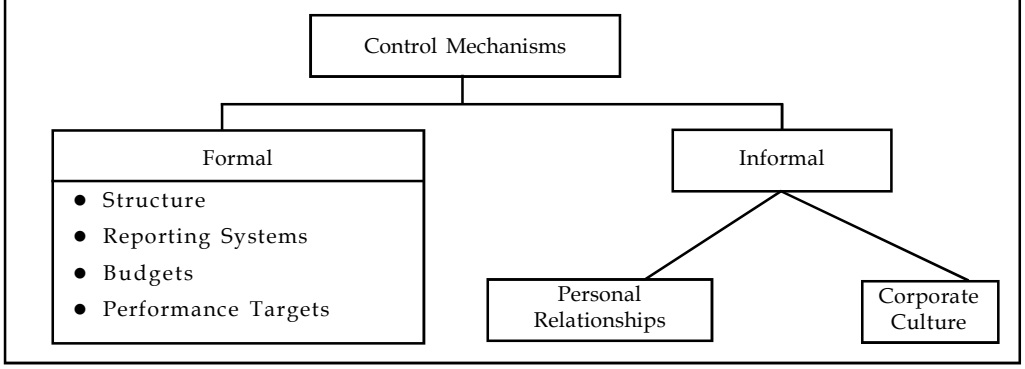
3.2 Control Mechanism

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

1. The key means for vital knowledge generation and diffusion is through personal contact. This means that networked organisations need processes to facilitate contacts. Training and development programmes held in regional centres or at headquarters, become an important forum for the development of personnel networks that foster informal communication channels, as well as for building corporate culture.
2. Network relationships are built and maintained through personal contact. Therefore, staffing decisions are crucial to the effective management of the linkages that the various subsidiaries have established.
3. The management processes in a networked multinational rely heavily on the ability of key staff to integrate operations to provide the internal company environment that fosters the required level of cooperation, commitment and communication flows between functions and subsidiary units.
4. Staff transfers are also an important part of the required management processes, particularly that of control. Multinationals continue to rely on the movement of key staff to assist in coordination and control.
5. Expatriates are used to instil a sense of corporate identity in subsidiary operations, and to assist in the transfer of corporate norms and values as part of corporate cultural (or normative) control.
6. The visit of the CEO to different countries also helps in integrating relationships and developing, strategic focus.

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

Figure 3.8: Control Mechanisms in Network MNC



Source: International Business Review 1996 (5.2) p. 137

Notes

It is important to remember that international growth affects the firm's approach to HRM and the HRM implications at each stage of internationalisation. Firms vary from one another as they go through the stages of international development, and react in different ways to the circumstances they encounter in the various foreign markets.

International operations place additional stresses on control mechanisms. There is also additional stress on the firm's ability to coordinate resources and activities.

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

Complementary, yet definitely secondary control is developed and maintained via more informal personal and social networks – the informal organisation. The unique cultural interactions and the contextual and physical distances that characterised multinational operations may have outstripped the capabilities of solely structural and formal forms of control.

Did u know? As long ago as 1981, William Ouchi termed the phrase 'clan control' to describe social control as a legitimate control system to supplement or replace traditional structural, bureaucratic control.

A more cultural focus emphasises the group level potential of corporate culture, informal social processes, personal work networks and the investment in social capital to act as sources of more complete and nimble control in a complex multi-product, multi-cultural environment. On the individual level, an emphasis on persons (as opposed to jobs), their competencies and skills, and the investment in human capital become the focus of more customised human resource practices and processes. Formal, structural controls still exist, but they are not the primary source of control. The complexities related to subsidiary mandate, reliance on local or corporate technologies and skills, as well as the cultural distance between the corporate and host cultures need to be considered in determining the mix of formal and informal control. Clearly more research is called for in this topic area.

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

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

Notes

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

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

Self Assessment

State whether the following statements are true or false:

8. International operations do not need any control mechanisms.
9. Networked organizations need processes to facilitate contacts.
10. Network relationships are built and maintained through personal contact.
11. Staff transfers are also an important part of the required management processes, in particular that of control.
12. Expatriates have no role in the transfer of corporate norms and values as part of corporate cultural.
13. The level of strategic control needed in an international operation is depicted along two axes; the type of subsidiary operating in each country.

3.3 Sustaining International Business Operations

Within multinational companies, there is a need to balance international strategy with local conditions and needs and move towards new organisational structures.

Global HRM functions like staffing, training and development of employees going out of nation for assignments or working in a different environment, is essential to be paid attention to. One of the key aspects of the strategic management of modern organisations is the balance between differentiation and integration. While flexibility is required in the way business is conducted differently in different locations, there is a need to integrate activity and coordinate not only business activity but the way people are developed and deployed within the international organisation.

Notes

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

Perlmutter's Model

Perlmutter suggested different internationalising strategies that organisations tend to fit which influence personnel practices within the global context. The ethnocentric approach is probably closest to global organisation where control is tight from the centre with subsidiaries having little autonomy and where key positions are held by home-country nations and there is a high degree of management by expatriates. The polycentric approach sees each subsidiary as a separate entity. Although subsidiaries are managed by locals, these same local managers are unlikely to have a career in the international group or at headquarters. The ideal approach is seen as the geocentric organisation.

Table 3.1: Perlmutter's Model of International Strategies

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

Source: Adapted from Chakravarthy and Perlmutter, 1985

Bartlett and Ghoshal Model

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

1. ***Multinational:*** This type of organisation responds to the need to exploit national diversity and recognise that consumer tastes and needs of technology may be based on local

Notes

conditions and national culture. This type of organisation will have a strong national presence and can respond to national diversity. There is very little direct influence from the parent company and interpersonal communication among representatives from the different cultures is quite limited.

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

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

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

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

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

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

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

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

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

Did u know? Vertical integration is a style of management control where companies are united through a hierarchy with a common owner. Usually each member of the hierarchy produces a different product or (market-specific) service, and the products combine to satisfy a common need.

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

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

Notes

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

3.3.1 Implications for Human Resource Management Policy

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

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

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

1. In the first phase, domestic, there is a denying or ignoring of other cultural contexts with foreigners simply being offered a product developed in the home country.
2. In the second phase, international, it is important to take the cultural component consideration, as firms are moving into foreign markets in which they need to operate more fully and take account of local conditions.
3. The third phase, multinational, is characterised by a globalisation of products and services in order to compete on price and culture is not such a major factor because of necessity there is recognition of cultural differences among the countries of operation.
4. In the fourth phase, global, there is a more complete adaptation to local markets of global products and cultural sensitivity and the international human resource function attempts to provide managers from anywhere with opportunities to develop in order to develop the organisation itself.

3.3.2 Integrated Strategic Framework

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

1. Inter-unit linkages involve the organisation's mechanisms for managing the differentiation and integration of its operating units.
2. Internal operations involves the need for each operating unit (e.g. subsidiary) to function effectively within its own (national or market environment).

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

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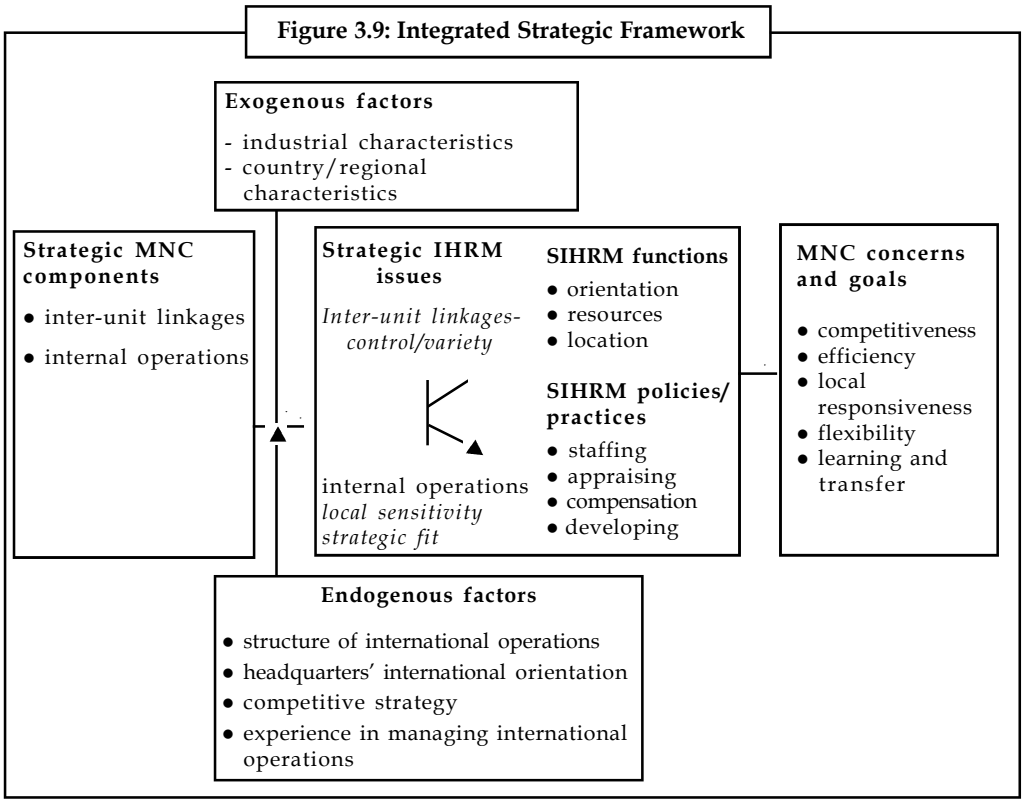

Source: Schuler, Dowling and De Cieri's (1993)

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

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

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

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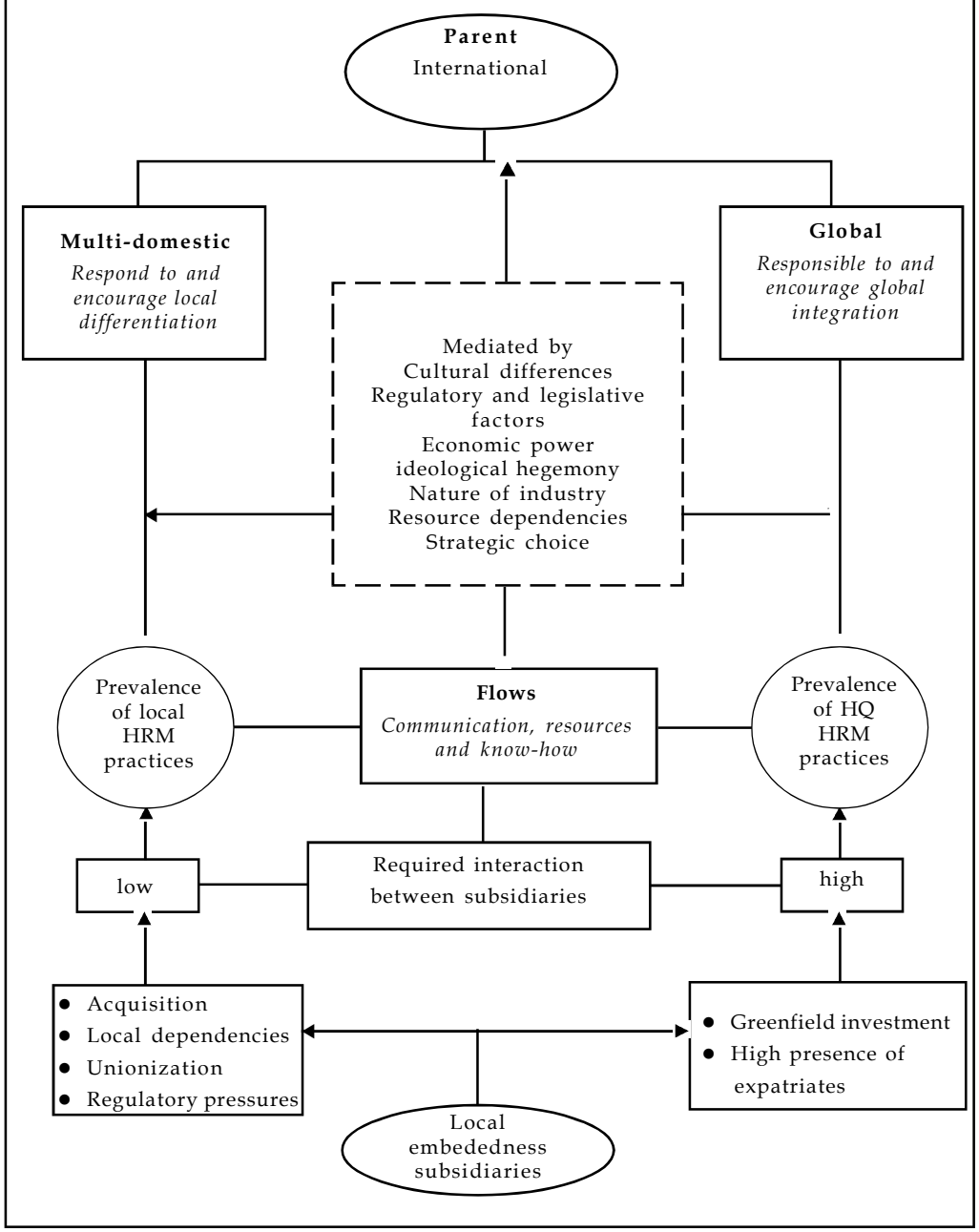
Figure 3.10: Strategy Optimising Factors in Developing People Management Policies



Source: International Journal of Human Resource Management 4 (4), 1993

3.3.3 Management and Organisation in Europe

There is a need to develop the appropriate management skills to meet the needs of the individual and need to develop attitudes and flexibility towards managing change, and managing across cultures.

Thurely and Widenius characterise these differences between Japanese and American management theory and practice as: work security versus individual freedom; organisational

Notes

loyalty versus job competence; consultation and involvement versus management authority; and work group innovation versus specialist know-how. They are concerned about developing a 'functional' model of management in the European context that reflects the different cultural values and legal institutional practices in Europe. They present European management as: emerging and being linked to the ideal of European integration, which is continuously encompassing more and different countries; reflecting key values including pluralism and tolerance, although not consciously developed from those values; being associated with a balanced stakeholder philosophy and the concept of social partners.

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

1. There is no national identity across the European Community as there is in Japan and the USA; for example there is no equivalent of the 'American Dream'.
2. There is no common language or culture.
3. Change is more complex than in American or Japan, particularly with the further integration of Eastern and Central European countries, and this is in some ways artificial in creation: manufactured by the architects and politicians of the Single European Market, signifying the higher level of creativity needed to manage in this environment.
4. There is increasing cross-border activity through mergers and acquisitions, joint ventures and direct investment situations requiring approaches to management such as project management and networking.
5. There is increasing emphasis on the use of technology as a means of competing (such as e-commerce opportunities and communicating (such as extensive use of Intranet systems).
6. There is continuing demand for linguistic skills, in addition to more traditional management skills.
7. There is a need to manage increasing diversity (between cultures rather than trying to create a uniform culture), ambiguity and complexity and an increasing need to create more flexible organisations and methods of working in order to cope with both diversity and change.

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

Notes **Implications for Managers: Revisiting DEC (Europe)**

European model of People Management state that horizontal linkages and lateral hierarchies and communication are becoming particularly important in regions such as Europe, where there is a need to develop flexibility and innovative processes. This is in keeping with the necessity to facilitate the transfer of information and to share and generate new knowledge within the concept of the learning organisation. McCalman describes the specific example of the setting up and operation of a cross-functional and cross-cultural project team tasked with developing a Europe-wide customer order delivery system that guaranteed delivery to the customer within 10 days. What was a complex logistic planning process was to be devised laterally by this management group, which would meet regularly at different European locations.

In establishing the project team, a major consideration was that the task had to involve a lot of people across Europe, in order to fully understand the process that required one

Contd...

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supply base and delivery to a number of countries. In each country, differences had to be understood, which was unique or common enough to make an impact on the process.

The project manager therefore had to select the team based on his understanding of the company and where he thought the skills lay within it. Through networking, it was possible to establish this where the manager did not know.

Self Assessment

State whether the following statements are true or false:

14. Perlmutter suggested different internationalising strategies that organisations tend to fit which influence personnel practices within the global context.

15. According to Thurely and Widenius, there is no national identity across the European Community as there is in Japan and the USA.

Case Study

GE's Acquisition in Hungary

In January 1990, the U.S. multinational, General Electric (GE), invested in Tungsram, a Hungarian lighting company, as part of its European market expansion strategy. By 1994, its equity had risen to 99.6%. The Hungarian operation had 13 existing factories employing 17,600 workers. GE initially appointed a Hungarian-born U.S. expatriate employing as its top manager, though he was later replaced when Tungsram was brought under the direct control of GE Lighting Europe in 1993. Staff transfers played an important role in training and developing the Hungarian staff. Key executives were brought over from the United States for varying lengths of time (three to six months) to assist in knowledge and skills transfer. Management training also involved sending Tungsram staff to the United States, giving selected Hungarians exposure to GE's working environment, and American life in general. In order to improve Tungsram's competitiveness, GE reduced staff levels by almost half and closed five plants, despite the unionised environment; it also invested heavily in training (quality programmes) to improve production workers' output. During this period, its European market share increased from 5% in 1989 to 15% in 1994.

Questions

1. How did G E choose to execute its expansion strategies?
2. Did GE's top manager anticipate the HR investment that the Tungsram acquisition would entail prior to its decision to purchase the Hungarian firm?
3. Was it proper to GE to replace the Hungarian-born U.S. expatriate as its top manager of Tungsram when it came under direct control of GE lighting Europe?
4. What steps did GE take to improve the competitiveness of Tungsram Company?

Source: Rao, P.L. (2008). International Human Resource Management. First Edition. Excel Books. New Delhi.

3.4 Summary

- IHRM is a very complex process.

Notes

- To a certain extent, how the internationalising firm copes with the HR demands of its various foreign operations determines its ability to execute its chosen expansion strategies.
- Apart from the strategic imperatives and staffing approaches, IHRM is affected by the way the internationalisation process itself is managed.
- Most firms pass through several stages of organisational development as the nature and size of their international activities grow.
- Exporting is initial stage for the firms entering international operations.
- As the firm develops expertise in foreign markets, agents and distributors are replaced by direct sales with the establishment of branch offices in the foreign market countries and the company creates an export division or function at the corporate home office and the export division head directly reports to the CEO.
- International operations place additional stresses on control mechanisms. There is also additional stress on the firm's ability to coordinate resources and activities.
- MNCs use different approaches to manage and staff their subsidiaries. While a firm goes through evolutionary stages, their organisation structure changes.
- HRM plays an important role in control and coordination process. As the firm goes international, there is a need for an integrated framework of strategic international HRM.

3.5 Keywords

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

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

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

Multinational Corporation (MNC): It is a corporation or enterprise that manages production or delivers services in more than one country.

Multinational Enterprise (MNE): A firm that takes a global approach to its foreign markets and production.

Polycentric: Each subsidiary is managed on a local basis.

Regiocentric: It reflects the geographic strategy and structure of the MNC.

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

Vertically integrated: Companies are united through a hierarchy with a common owner.

3.6 Review Questions

1. Analyse the attitudes of MNCs towards building a multinational enterprise, giving details.
2. Examine the internationalisation process towards the path to global status.
3. Giving an example explain the integrated strategic framework for HRM.
4. Analyse the various factors that needs to be addressed for developing international organisations.
5. Examine the changes in the HRM policy as the firm transcends across its national borders.

Notes

6. Giving the examples, explain the stages of structural evolution of multinationals along with the developments in the new types of multinational structures.
7. "HRM plays a key role in control and coordination processes, in less-hierarchical structures." Analyse this statement in light of role of HR in internationalisation giving suitable example.
8. You are the HR manager in an Indian firm. Give a detail plan of the changes in the policy and procedures as your firm will go for process of Internationalisation.
9. "Different internationalisation strategies that organisations tend to fit influence personnel practices within the global context." Analyse this statement giving different strategies to be adopted by the firm planning to international.
10. Analyse the Bartlett and Ghoshal model for internationalisation on any Indian firm.
11. Analyse the differences in the HR polices of the Indian firm and those of the MNCs.
12. Taking the example of McDonald's, explain the process of global integration.
13. Analyse the advantages and disadvantages of the ethnocentric approach followed by a firm.
14. Examine the global status of Coca-cola in terms of its product/service and area division giving the network structures and changes in the HR policies.

Answers: Self Assessment

1.	Internationalisation	2.	Strategic
3.	Subcontracting	4.	Exporting
5.	Joint venture	6.	Business
7.	Keiretsu	8.	False
9.	True	10.	True
11.	True	12.	False
13.	False	14.	True
15.	True		

3.7 Further Readings

Books

Adler N.J. (Fifth Edition). *International Dimensions of Organisational Behaviour*. Thomson Higher Education.

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www.hrmguide.net

http://ihrmlearningjournal.blogspot.in/2007/10/sustaining-international-business.html

http://www.monroecollege.edu/AcademicResources/ebooks/0324580347_lores_p01_ch02.pdf

Unit 4: Globalisation in World Economy

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Objectives

After studying this unit, you will be able to:

- Explain the term globalisation
- Discuss on the emergence of global economy
- Interpret the globalisation of market
- Describe the globalisation of production, investment and technology

Introduction

Globalisation is a powerful real aspect of the new world system, and it represents one of the most influential forces in determining the future course of the planet. It has manifold dimensions: economic, political, security, environmental, health, social, cultural, and others. The focus here is on the concept of "globalisation" as applied to the world economy HRM, the drivers of globalisation and also the variables that moderate differences between HRM and GHRM.

4.1 Emerging Global Economy

"Globalisation" here means major increases in worldwide trade and exchanges in an increasingly open, integrated, and borderless international economy. There has been remarkable growth in such trade and exchanges, not only in traditional international trade in goods and services, but also in exchanges of currencies, in capital movements, in technology transfer, in people moving through international travel and migration, and in international flows of information and ideas. Globalisation has involved greater openness in the international economy, an integration of markets on a worldwide basis, and a movement toward a borderless world, all of which have led to increases in global flows.

Notes

Caution The world economy is being transformed by a combination of:

(a) Technological, and

(b) Geopolitical factors.

There are several sources of globalisation over the last several decades. Technological advances that have significantly lowered the costs of transportation and communication and dramatically lowered the costs of data processing and information storage and retrieval comprise one such source. The latter stems from developments over the last few decades in electronics, especially the microchip and computer revolutions. Electronic mail, the Internet, and the World Wide Web are some of the manifestations of this new technology, where today's $2,000 laptop computer is many times more powerful than a $10 million mainframe computer of twenty-five years ago.

Notes Technological factors would include:

- Improvements in transportation and communications
- Movement toward greater Western styled cultural homogeneity
- Real time information about world events through television and the internet
- Role of jet travel, communication satellites, and fiber-optic networks
- Technology has aided the development of a single global capital market (New York, London, Tokyo stock markets)

Another source of globalisation is trade liberalisation and other forms of economic liberalisation that have led to reductions in trade protection and to a more liberal world trading system. This process began in the last century, but the two World Wars and the Great Depression interrupted it. It resumed after World War II through the most-favoured-nation approach to trade liberalisation, as embodied in the 1946 General Agreement on Tariffs and Trade (GATT) that has evolved into the World Trade Organisation (WTO). As a result, there have been significant reductions in tariffs and other barriers to trade in goods and services. Other aspects of liberalisation have led to increases in the movement of capital and other factors of production. Some economists and historians have suggested that globalisation is little more than a return to the world economy of the late nineteenth century and early twentieth century.

A third source of globalisation is comprised of changes in institutions, where organisations have a wider reach, due, in part, to technological changes and to the more wide-ranging horizons of their managers, empowered by advances in communications. Thus, corporations that were mainly focused on local markets have extended their range in terms of markets and production facilities to a national, multinational, international or even global reach. These changes in industrial structure have led to increases in the power, profits and productivity of those firms that can choose among many nations for their sources of materials, production facilities and markets, quickly adjusting to changing market conditions. Virtually every major national or international enterprise has such a structure or relies on subsidiaries or strategic alliances to obtain a comparable degree of influence and flexibility. As one measure of their scale, almost a third of total international trade now occurs solely within these multinational enterprises. With the advent of such global firms, international conflict has, to some extent, moved from nations to these firms, with the battle no longer among nations over territory but rather among firms over their share of world markets. These global firms are seen by some as a threat to the scope

and autonomy of the state, but, while these firms are powerful, the nation state still retains its traditional and dominant role in the world economic and political system.

Notes The geopolitical factors include:

- Demise of communism and the rise of market based economies
- Removal of trade barriers and free capital flows (relative effects on exchange rates)
- Change in institutional barriers
- Intervention of multinational corporations

Globalisation has clearly changed the world system and that it poses both opportunities and challenges. It is also clear that the technological, policy, institutional, ideological, and cultural developments that have led to globalisation are still very active. Thus, barring a radical move in a different direction, these trends toward greater globalisation will likely continue or even accelerate in the future. One important aspect of these trends will be the growth in international trade in services that has already increased substantially but promises even greater growth in the future, especially in such areas as telecommunications and financial services. The result will be continued moves toward a more open and a more integrated world as it moves closer and closer to a planet without borders and to a more integrated, open, and interdependent world economy. The result will be even greater worldwide flows of goods, services, money, capital, technology, people, information and ideas.

4.1.1 Impacts of Globalisation on National Economies

Globalisation has had significant impacts on all economies of the world, with manifold effects. It affects their production of goods and services. It also affects the employment of labour and other inputs into the production process. In addition, it affects investment, both in physical capital and in human capital. It affects technology and results in the diffusion of technology from initiating nations to other nations. It also has major effects on efficiency, productivity and competitiveness. Several impacts of globalisation on national economies deserve particular mention. One is the growth of foreign direct investment (FDI) at a prodigious rate, one that is much greater than the growth in world trade. Such investment plays a key role in technology transfer, in industrial restructuring and in the formation of global enterprises, all of which have major impacts at the national level. A second is the impact of globalisation on technological innovation. New technologies, as already noted, have been a factor in globalisation, but globalisation and the spur of competition have also stimulated further advances in technology and speeded up its diffusion within nations through foreign direct investment. A third is the growth of trade in services, including financial, legal, managerial, and information services and intangibles of all types that have become mainstays of international commerce.

Did u know? In 1970, less than a third of foreign direct investment related to the export of services, but today that has risen to half and it is expected to rise even further, making intellectual capital the most important commodity on world markets.

As a result of the growth of services both nationally and internationally, some have called this "the age of competence," underscoring the importance of lifelong education and training and the investment in human capital in every national economy.

Notes

Self Assessment

Fill in the blanks:

1. The trend away from distinct national economic units and toward one huge global market is known as ……....
2. Globalisation has involved greater ……. in the international economy.
3. The world economy is being transformed by a combination of technological and ……. factors.
4. ……. advances have significantly lowered the costs of transportation and communication.
5. Technological factors include real time information about world events through television and the …….
6. …….. have led to increases in the movement of capital and other factors of production.
7. Geopolitical factors include emerging global economy is demise of ……. and the rise of market based economies.

4.2 Globalisation of Market, Production, Investment and Technology

The globalisation of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace. In many markets today, the tastes and preferences of consumers in different nations are converging upon some global norm.

In the past, marketers have capitalised on the demand stemming from the developed regions of the world; North America, Europe and Australasia. Demand in these markets remains strong. However, growth has slowed significantly in the recent past. International marketers are now turning to the developing regions of the world where there is still huge potential for market growth.

The emerging markets with the highest growth potential are located in Africa, South America, Asia and Eastern Europe. More specifically, international marketers are focusing their efforts on gaining entry into South Africa, Brazil, India, China, and Russia. As these markets become more industrialised, workers are able to earn a more stable and higher income.

There are a few key factors that you can look at to identify the emerging markets with the most potential. Population and population growth forecasts are useful indicators of total market size. The population of India and China combined is over 2.5 billion people, clearly indicating why international marketers are interested in entering these markets.

The level of infrastructure in an emerging market is another good indicator of market potential. When engaging in international operations, you rely heavily on services provided by the local market. You are likely to utilise transportation systems, communication systems and energy infrastructure to sell and distribute your products and services. It will be easier and more cost effective to work in countries that already have reasonably well developed and reliable infrastructure.

Income and spending behaviour are also important factors to consider when analysing an emerging market. When looking at income figures, ensure that you look at the median income rather than the average income. This is because many developing countries feature a small amount of the population who hold the majority of the countries wealth. This can cause average income figures to overestimate what the majority of the population actually earns in a year.

Notes

Spending and consumption behaviour takes into account the way that people spend their income. For example, is all of a family's income spent on basic necessities (food, clothing, shelter) or is there enough left over to be spent on luxury goods (electrical appliances, cars, computers)? You also need to look at the culture of spending. For example, do families save their disposable income or do they like to spend it on products that define status in the developing world, like brand name clothes, a car or a mobile phone?

By carefully analysing all of the issues and factors that influence market potential, you can work out which markets you should target and what marketing strategies you can use to gain a market share. There are barriers to entering many of the world's emerging economies, however, the potential for achieving international marketing success in these regions should not be ignored.

The push towards global free trade has resulted in the establishment of many free trade agreements between countries, the developed of regional trading groups and the creation of the World Trade Organisation.

It is generally believed that opening up trade between nations and regions is better for consumers as it allows prices to be set based on actual supply and demand. Protectionist policies generally set prices at an artificial level. By preventing fair competition from international suppliers, they keep prices inflated at a higher point than they would be under a free market.

Once international competitors are freely able to enter markets, their costs are reduced. These cost savings are largely passed on to consumers driving demand for products and services. This can have a positive impact on the local economy as more people are able to afford a wider range of consumer goods.

Example: Market globalisation trend is followed by organisations: Coca Cola, Starbucks, Sony PlayStation, and McDonald's hamburgers.

4.2.1 Globalisation of Production

The globalisation of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (labor energy, land, and capital).

The goal for companies is to lower their overall cost structure or improve the quality or functionality of their product and gain competitive advantage.

Example: Production Globalisation trend is followed by companies like; Boeing and Vizio.

Several global institutions have emerged to:

- Help manage, regulate, and police the global market place.
- Promote the establishment of multinational treaties to govern the global business system.

Notable global institutions include:

- The World Trade Organisation (WTO) which is responsible for policing the world trading system and ensuring that nations adhere to the rules established in WTO treaties.
- In 2008, 151 nations accounting for 97% of world trade were members of the WTO.
- The International Monetary Fund (IMF) which maintains order in the international monetary system.

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- The World Bank which promotes economic development.
- The United Nations (UN) which maintains international peace and security, develops friendly relations among nations, cooperates in solving international problems and promotes respect for human rights, and is a centre for harmonising the actions of nations.

However, free trade can have a negative and significant impact on local industries. Many local organisations are only able to compete against international organisations due to the trade barriers put in place by their government. When these barriers are removed and the market is flooded with cheaper, superior or even equal products compared to those being produced locally, the domestic businesses are unable to compete. This can lead to business closures, unemployment and reduced demand.

4.2.2 Globalisation of Investment

- International trade occurs when a firm exports goods or services to consumers in another country.
- Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country.
- During the 1920s and 1930s, many nations erected barriers to international trade and FDI to protect domestic industries from foreign competition.
- After World War II, advanced Western countries began removing trade and investment barriers.
- Under GATT (the forerunner of the WTO), over 100 nations negotiated further decreases in tariffs and made significant progress on a number of non-tariff issues.
- Under the WTO, a mechanism now exists for dispute resolution and the enforcement of trade laws, and there is a push to cut tariffs on industrial goods, services, and agricultural products.
- Lower trade barriers enable companies to view the world as a single market and establish production activities in optimal locations around the globe.
- This has led to an acceleration in the volume of world trade and investment since the early 1980s.

The World Trade Organisation (WTO) was established in 1995 to supervise and encourage international free trade. It assists countries with the formation of free trade agreements and aims to stimulate economic growth. The WTO does not force any countries into free trade agreements. It only acts as a mediator during negotiations instigated by the countries involved.

Free trade is an especially important issue for the world's developing economies. They are often able to produce products at a lower cost than in other countries, and the income they earn from exports allows their economies to grow rapidly and improves the living standards of the population. It also provides them with access to technology and expertise from the developed world that would otherwise take years to develop.

From a global perspective, it is clear that the benefits of free trade are significant for consumers and organisations. Whilst some industries move to capitalise on the cheap labour in the developing world, new industries with a focus on innovation and technology are created. The increase in free trade around the world will continue to drive growth in the global economy into the future.

With globalisation of markets, well-managed companies have moved from emphasis on customising items to offering globally standardised products that are advanced, functional,

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reliable—and low priced. Multinational companies that concentrated on idiosyncratic consumer preferences have become befuddled and unable to take in the forest because of the trees. Only global companies will achieve long-term success by concentrating on what everyone wants rather than worrying about the details of what everyone thinks they might like.

Task Study the FDI reforms and find out what percentage of FDI is permitted in various sectors.

4.2.3 Globalisation of Technology

- Lower trade barriers enable companies to view the world as a single market and establish production activities in optimal locations around the globe.
- This has led to an acceleration in the volume of world trade and investment since the early 1980s.
- The development of the microprocessor has lowered the cost of global communication and therefore the cost of coordinating and controlling a global organisation.
- Web-based transactions have grown from virtually zero in 1994 to $250 billion in 2007 in the U.S. alone, and Internet usage is up from fewer than 1 million users in 1990 to 1.3 billion users in 2007.
- Commercial jet aircraft and super freighters and the introduction of containerisation have greatly simplified transshipment from one mode of transport to another.

Self Assessment

State whether the following statements are true or false:

8. The Federal Reserve is an example of a global institution.
9. Declining trade and investment barrier is a factor underlying the trend toward greater globalisation.
10. Coca-Cola, Sony Playstations, and McDonald's hamburgers are all examples of American products.

Caselet

Technology Globalisation

Globalisation of Technology can be measured by the global presence of a technology company. One simple measure might be the number of non-U.S. companies traded on the NASDAQ exchange. Presumably, NASDAQ trading reflects a non-U.S. technology company's ability to break through regional barriers and gain international recognition.

Consider these numbers: As of August 5, seven companies that are registered in Australia are traded on NASDAQ; six that are registered in Japan, five in the UK, four in Singapore, two in France, three in Germany, two in South Korea, three in India, three in Argentina, one in Brazil, one in Spain and one in Sweden. In contrast, one figure stands out: 63 companies registered in Israel are traded on NASDAQ.

Source: knowledge.wharton.upenn.edu/article.cfm?articleid=2316

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4.3 The Future of Globalisation

Like a snowball rolling down a steep mountain, globalisation seems to be gathering more and more momentum. And the question frequently asked about globalisation is not whether it will continue, but at what pace.

A disparate set of factors will dictate the future direction of globalisation, but one important entity—sovereign governments—should not be overlooked. They still have the power to erect significant obstacles to globalisation, ranging from tariffs to immigration restrictions to military hostilities. Nearly a century ago, the global economy operated in a very open environment, with goods, services, and people able to move across borders with little if any difficulty. That openness began to wither away with the onset of World War I in 1914, and recovering what was lost is a process that is still underway. Along the process, governments recognised the importance of international cooperation and coordination, which led to the emergence of numerous international organisations and financial institutions (among which the IMF and the World Bank, in 1944).

Indeed, the lessons included avoiding fragmentation and the breakdown of cooperation among nations. The world is still made up of nation states and a global marketplace. We need to get the right rules in place so the global system is more resilient, more beneficial, and more legitimate. International institutions have a difficult but indispensable role in helping to bring more of globalisation's benefits to more people throughout the world. By helping to break down barriers—ranging from the regulatory to the cultural—more countries can be integrated into the global economy, and more people can seize more of the benefits of globalisation.

Task Chart out the growth path followed by globalisation after the phase of liberalisation and industrial revolution.

Notes **Myths about Globalisation**

No discussion of globalisation would be complete without dispelling some of the myths that have been built up around it.

Downward pressure on wages: As more work can be mechanised, and as fewer people are needed to do a given job than in the past, the demand for that labour will fall, and as a result the prevailing wages for that labor will be affected as well.

The "race to the bottom": In an open global market, while jurisdictions do compete with each other to attract investment, this competition incorporates factors well beyond just the hourly wage rate. According to the UN Information Service, the developed world hosts two-thirds of the world's inward foreign direct investment. The 49 least developed countries—the poorest of the developing countries—account for around 2 per cent of the total inward FDI stock of developing countries.

Globalisation is irreversible: In the long run, globalisation is likely to be an unrelenting phenomenon. But for significant periods of time, its momentum can be hindered by a variety of factors, ranging from political will to availability of infrastructure.

Openness to globalisation will, on its own, deliver economic growth: Integrating with the global economy is, as economists like to say, a necessary, but not sufficient, condition for

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economic growth. For globalisation to be able to work, a country cannot be saddled with problems endemic to many developing countries, from a corrupt political class, to poor infrastructure, and macroeconomic instability.

The shrinking state: Technologies that facilitate communication and commerce have curbed the power of some despots throughout the world. But in a globalised world, governments take on new importance in one critical respect, namely, setting, and enforcing, rules with respect to contracts and property rights. The potential of globalisation can never be realised unless there are rules and regulations in place, and individuals to enforce them. This gives economic actors' confidence to engage in business transactions.

Self Assessment

Fill in the blanks:

11. Sovereign governments have the power to erect significant obstacles to globalisation, ranging from tariffs to …… restrictions to military hostilities.
12. Governments recognised the importance of international ……. and coordination and this led to the emergence of numerous international organisations and financial institutions.
13. The world is made up of nation states and a global ……..
14. By helping to break down barriers ranging from the regulatory to the cultural, more countries can be integrated into the global …….
15. It's a myth that technologies which facilitate communication and ……. have curbed the power of some despots throughout the world.

Case Study

Nike: Reasons for Globalisation

Like any multinational company, Nike used the process of globalisation because the managers felt that the company could benefit by doing so. However, it is worth noting that the company actually started out as a global network; the very first shoes that they sold were made in Japan, and imported into the United States. Today, the global reach of Nike is much more significant.

They have manufacturing operations in 45 countries, and their products are sold in almost ever country on Earth. This sort of expansion cannot happen without a detailed plan, and a plan needs to be "sold" to the decision makers if it is to be accepted. These are some of the reasons that the managers at Nike could have used to justify their expansion:

1. ***Lower input costs:*** Like any business, Nike aims to buy their products for the lowest possible price, and then sell them for a profit. The higher the margin, the more their wealth will increase with each sale. There is no doubt that in choosing to have their shoes manufactured in other countries, Nike has been able to access workers who are paid lower wages than they would have to pay if they established their production lines in America. Lowering costs is a key goal for managers in most companies.
2. ***Access new markets:*** While the population of the United States is large, there are even more people in the rest of the world. In choosing to sell their shoes in other countries, Nike was able to gain access to even greater number of consumers. This

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allowed them to increase their global sales, which ultimately resulted in an increase in profits.

3. ***Access resources:*** One of the most important inputs used in the production of Nike shoes is rubber. Rubber is a resource which is not produced in the United States; if the manufacturing arm of Nike wants to use it, they will need to find it in other countries.

4. ***Transportation costs:*** At first glance it might seem that transport costs for the company would be higher if they adopt a globalised approach. However, with customers all over the world, Nike needed a way to ensure that their transport costs could be minimised to all of their customers. While it might be cheaper to sell to American customers from a US based distribution centre, it is far more expensive to sell to other customers from that location.

5. ***Economies of scale:*** We have seen that Nike is keen to expand their customer base, but at the same time they would like to minimise their transport costs. In order to achieve these joint goals, production has been centralised in certain countries. This has allowed for very high production levels, and as a result of this the company has been able to achieve economies of large scale production. In other words, producing in this way has enabled them to lower their cost per item.

Question

List some other reasons which may have lead managers at Nike to opt for Globalisation.

Source: economics.mrwood.com.au/unit2/ecoglobal/nike/nike3.asp

4.4 Summary

- Globalisation is a powerful real aspect of the new world system, and it represents one of the most influential forces in determining the future course of the planet.
- "Globalisation" is understood here to mean major increases in worldwide trade and exchanges in an increasingly open, integrated, and borderless international economy.
- There has been remarkable growth in such trade and exchanges, not only in traditional international trade in goods and services, but also in exchanges of currencies, in capital movements, in technology transfer, in people moving through international travel and migration, and in international flows of information and ideas.
- There are several sources of globalisation over the last several decades.
- Another source of globalisation is trade liberalisation and other forms of economic liberalisation that have led to reductions in trade protection and to a more liberal world trading system.
- A third source of globalisation is comprised of changes in institutions, where organisations have a wider reach, due, in part, to technological changes and to the more wide-ranging horizons of their managers, empowered by advances in communications.
- Virtually every major national or international enterprise has such a structure or relies on subsidiaries or strategic alliances to obtain a comparable degree of influence and flexibility.
- Globalisation has clearly changed the world system and that it poses both opportunities and challenges. It is also clear that the technological, policy, institutional, ideological, and cultural developments that have led to globalisation are still very active.

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- Globalisation has had significant impacts on all economies of the world, with manifold effects.
- The globalisation of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace.
- In many markets today, the tastes and preferences of consumers in different nations are converging upon some global norm.

4.5 Keywords

Emerging Economies: Emerging economies are nations with social or business activity in the process of rapid growth and industrialisation.

Foreign Direct Investment (FDI): An investment made by a company or entity based in one country, into a company or entity based in another country.

Human Capital: The skills, knowledge, and experience possessed by an individual or population, viewed in terms of their value or cost to an organisation.

Infrastructure: The stock of fixed capital equipment in a country, including factories, roads, schools, etc., considered as a determinant of economic growth.

Intellectual Capital: Collective knowledge of the individuals in an organisation or society. This knowledge can be used to produce wealth, gain competitive advantage, and enhance value of other types of capital.

International Trade: International trade is exchange of capital, goods, and services across international borders or territories.

Market: A market is any place where the sellers of a particular good or service can meet with the buyers of that goods and service where there is a potential for a transaction to take place.

Multinational Enterprise: A multinational enterprise is any business that has productive activities in two or more countries.

4.6 Review Questions

1. What do you understand by global economy?
2. How is globalisation leading to the emergence of global economy?
3. State the major factors behind the transformation of world economy.
4. Elaborate on the Technological advancements that aid the globalisation process.
5. Explain the geopolitical factors that helped global economy in emerging.
6. What has helped the globalisation of investment?
7. What do you understand by the globalisation of production?
8. What do you think at what pace globalisation will continue?

Answers: Self Assessment

1. Globalisation
2. Openness
3. Geopolitical
4. Technological

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5. Internet
6. Liberalisation
7. Communism
8. False
9. True
10. False
11. Immigration
12. Cooperation
13. Marketplace
14. Commerce
15. Economy

4.7 Further Readings

Books

Dowling, P. J. and Welch, D. E. (1999). *International Human Resources Management.* 4th ed. CENGAGE Learning.

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Andersen, Arthur. (1996). *International Assignment Policies- A Benchmark Study*. Jossey-Bass Publishers.

Stewart Black, Hal B. Gregersen and Mark E. Mendenhall. (1992). Global Assignments. Jossey-Bass Publishers.

Online links

http://www.milkeninstitute.org/pdf/globalization_pb.pdf

http://hbr.org/1983/05/the-globalization-of-markets/ar/1

Notes

Unit 5: Recruitment and Selection for International Assignments

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Objectives

After studying this unit, you will be able to:

- Explain the process of recruitment and selection of staff for international assignment
- Discuss on the issues in staff selection
- Describe the factors moderating performance
- Identify the reasons behind success and failure of expatriates
- State the criteria of selection of expatriates

Introduction

Human Resource Management is crucial to organisational competitiveness and productivity due to the growing diversity of the world's workforce and its increasing importance. The need to manage this diversity better has become a major challenge to the international manager. If large corporations intend to retain their domestic operations and still be competitive with

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respect to cost and quality, they will have to improve their human resource management. They must plan their recruitment and selection process to develop an effective workforce. Employees must be viewed as valuable assets–resources that are vital to the successful performance of the organisation. Talented people must be attracted to join the organisation, developed to perform at high levels, and encouraged to remain with the organisation with loyalty and commitment to the organisation and its objectives.

5.1 Recruitment Process

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

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

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

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

Recruitment can be categorised into two types: (1) external recruitment; and (2) internal recruitment. External recruitment is conducted in four steps:

1. ***Planning:*** Human resource managers must first determine those jobs they wish to fill, how many candidates they can reach and how many of them would accept the job offer.
2. ***Strategy Development:*** Next, a strategy is developed that specifies where to look for candidates, as well as how and when to look.
3. ***Searching:*** Based on the plan and the strategy, candidates are contacted and given job information and applications are collected. From this pool of candidates, the required new people are hired.
4. ***Programme Evaluation:*** The recruitment programme must be continuously monitored, evaluated, and changed as required.

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

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

Did u know? One technique of the recruitment process is known as the Realistic Job Preview (RJP), by which every candidate is given all the pertinent and realistic information about both the job and organisation. Both the positive and negative sides of the job and the firm are included. In this manner, a candidate can make a more-informed choice and select jobs for which, he or she is better suited. In the long run, the RJP helps to improve overall job satisfaction and performance. It also avoids situations where dissatisfaction and poor performance results from a person finding that the job and its environment were not as advertised.

5.1.1 MNCs International Staffing Approaches

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

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

1. A perceived lack of qualified Host-country Nationals (HCNs), and
2. The need to maintain good communication, coordination, and control links with corporate headquarters.

For instance, when a multinational acquires a firm in another country, it may wish to initially replace local managers with PCNs to ensure that the new subsidiary complies with overall corporate objectives and policies, or because the local staff may not have the required level of competence.

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

1. An ethnocentric staffing policy limits the promotion opportunities of HCNs, which may lead to reduced productivity and increased turnover among that group.
2. The adaptation of expatriate managers to host countries often takes a long time during which PCNs often make mistakes and make poor decisions.
3. When PCN and HCN compensation packages are compared, the often-considerable income gap in favour of PCNs is viewed by HCNs as unjustified.
4. For many expatriates a key international position means new status, authority, and an increase in standard of living. These changes may affect expatriates' sensitivity to the needs and expectations of their host-country subordinates.

Polycentric Approach: A polycentric staffing policy is one in which HCNs are recruited to manage subsidiaries in their own country and PCNs occupy positions at corporate headquarters. The main advantages of a polycentric policy are:

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

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2. Employment of HCNs allows a multinational company to take a lower profile in sensitive political situations.
3. Employment of HCNs is less expensive, even if a premium is paid to attract high-quality applicants.
4. Employing HCNs gives continuity to the management of foreign subsidiaries. This approach avoids the turnover of key managers that, by its very nature, results from an ethnocentric approach.

A polycentric policy, however, has its own disadvantages. Perhaps the major difficulty is that of bridging the gap between HCN subsidiary managers and PCN managers at corporate headquarters. A second major problem associated with a polycentric staffing policy concerns the career paths of HCN and PCN managers.

Geocentric Approach: The geocentric approach option utilises the best people for the key jobs throughout the organisation, regardless of nationality. There are two main advantages to this approach: it enables a multinational firm to develop an international executive team, and it overcomes the "federation" drawback of the polycentric approach. Phatak (1995) believes the feasibility of implementing a geocentric policy is based on five related assumptions:

1. Highly competent employees are available not only at headquarters, but also in the subsidiaries;
2. International experience is a condition for success in top positions;
3. Managers with high potential and ambition for promotion are constantly ready to be transferred from one country to another;
4. Competent and mobile managers have an open disposition and high adaptability to different conditions in their various assignments; and
5. Those not blessed initially with an open disposition and high adaptability can acquire these qualities as their experience abroad accumulates.

There are disadvantages associated with a geocentric policy. First, host governments want a high number of their citizens employed and will utilise immigration controls in order to force HCN employment if not enough people with adequate skills are available. Most Western countries require companies to provide extensive documentation if they wish to hire a foreign national instead of a local national. Providing this documentation can be time-consuming, expensive, and at times, futile.

Another disadvantage is that a geocentric policy can be expensive to implement because of increased training and relocation costs. Finally, large numbers of PCNs, TCNs, and HCNs need to be sent abroad in order to build and maintain the international team required to support a geocentric staffing policy.

Regiocentric Approach: One illustration of this approach is a regiocentric policy, which Heanan and Perlmutter (1979) define as functional rationalisation on a more-than-one country basis. The specific mix will vary with the nature of a firm's business and product strategy. For example, a U.S-based firm could create three regions: Europe, the Americas, and Asia-Pacific. Staff transfers to the Asia-Pacific region from Europe would be rare, as would transfers from the regions to headquarters in the United States.

One motive for using a regiocentric approach is that it allows interaction between executives transferred to regional headquarters from subsidiaries in the region and PCNs posted to the regional headquarters. There are some disadvantages in a regiocentric policy. It can produce federalism at a regional rather than a country basis and constrain the organisation from taking a global stance. Another difficulty is that while this approach does improve career prospects at

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the national level, it only moves the barrier to the regional level. Staff may advance to regional headquarters but seldom to positions at the parent headquarters.

Based on the attitudes of the top management a multinational can pursue one of several approaches to international staffing. It may even proceed on an ad hoc basis, rather than systematically selecting one of the four approaches discussed above.

The approach of an appropriate policy on executive nationality tends to reflect organisational needs. For instance, if the multinational places a high priority on organisational control, then an ethnocentric policy will be adopted. However, there are difficulties in maintaining a uniform approach to international staffing. Therefore, strategies in different countries may require different staffing approaches.

5.1.2 International Assignments

An international assignment has long been seen as providing executives with an opportunity for personal growth and professional development, while enabling companies to place executives in markets where specific capabilities are needed or to spread corporate values and best practices throughout the organization. With business footprints expanding and international markets becoming increasingly important drivers of revenue and profit growth, companies need executives who are global thinkers with broad-based business perspectives and the ability to master an array of markets, cultures, competitors and workforce differences.

5.1.3 Role of Expatriates

With the globalization of businesses, opportunities and challenges, the need for expatriates in international locations becomes a requirement. Global human resource managers need to understand and recognize the signs of potential global assignment failures and their impact on the business and long term objectives of the organization. International assignments end in failure (when defined as a premature return) because of many factors that potentially affect the adjustment of expatriates such as selection mechanisms and criteria, previous international experience, cross-cultural training, individual factors, job factors, organizational culture, organizational socialization as well as various non-work factors (Black, et al., 1991). The processes of expatriate staffing and training programs are expensive and complex, particularly when the company has to pay taxes for the parent-company employee in both countries (Deresky, 2011). Effective training programs for expatriates contributed to the growing awareness among business firms that the key to success rests with their ability to mobilize and utilize their human resources in crafting and implementing new global business strategies (Selmer & Leung, 2007). Without proper training and a realistic job preview, the expatriate will have a very hard time adjusting to his/her new surroundings (Andreason, 2008).

Self Assessment

Fill in the blanks:

1. Recruitment is the process by which an organisation …… people to apply for their job openings.
2. Recruitment begins with human resource …….
3. Internal recruitment consists of promotion from within, job posting and contacts and …….. by current employees.
4. An …… approach to staffing results in all key positions in a multinational being filled by Parent-country Nationals (PCNs).

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5. The …… approach option utilises the best people for the key jobs throughout the organisation, regardless of nationality.

5.2 Issues in Staff Selection

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

1. ***Managers Selection:*** The advantages and disadvantages of selecting the various managers are analysed as:

   (a) *Parent-country Nationals*

   Advantages

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

   (ii) Promising managers are given international experience.

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

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

   Disadvantages

   (i) The promotional opportunities of HCNs are limited.

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

   (iii) PCNs may impose an inappropriate HQ style.

   (iv) Compensation for PCNs and HCNs may differ.

   (b) *Third-country Nationals*

   Advantages

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

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

   Disadvantages

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

   (ii) The host government may resent hiring TCNs.

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

   (c) *Host-country Nationals*

   Advantages

   (i) Language and other barriers are eliminated.

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

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

   (iv) Government policy may dictate hiring of HCNs.

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

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Disadvantages

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Indian women have a track record holding important political positions too few have achieved similar success in ranks of business management like Indira Nooyi, Kiran Majhumdar, Chanda Kocchar, etc. Progress in this area is still held back by traditional beliefs that women are second class citizens whose place is in the home. More women excel in politics and in elected offices; their acceptance and interest in corporate boardrooms are increasing gradually.

Caselet

Dispelling Myths about Women Expatriates

US companies today are concerned that sending female employees on an overseas assignment poses some sort of risk. But two international relocation experts say this concern is unfounded and stems from some common myths about female expatriates.

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Myth #1: Overseas, local males treat American females very much like they treat local females.

It is true that men in other cultures often deal with their own women in ways that many Americans find objectionable, so it's understandable that we wouldn't want our own women to endure such treatment. But intercultural training experts Cornelius Grove and Willa Hallowell say that's seldom a worry.

Writing in an article that appeared in Runzheimer Reports on Relocation, Grove and Hallowell noted that, "Our research, like that of others, has found that in the preponderance of cases, local males do not mentally classify a foreign woman in the same way as they classify local women. In fact, expatriate professional females have an advantage in being outside the locals' normal classification system."

Myth #2: Local male co-workers create performance barriers for the female expatriate.

Not so, say Grove and Hallowell. "Our interviews reveal an ironically different story. It turns out that many women who encounter significant barriers are more likely to complain about their fellow expat male co-workers.

These women tell us that, American males who have been on overseas assignments for many years actually erect the highest barriers. The women also say that local co-workers can be very supportive of female expatriates if their respect and goodwill is carefully cultivated.

Single, Young and American . . .

Grove and Hallowell point to three attributes that is more likely to be a liability overseas than being female – being single, being young, and being culturally American.

Being single is a liability because both local people and fellow expats often don't know how to comfortably fit a single person into their social lives. Regarding youth, let's recall that youthfulness is valued in American culture, whereas the tradition and wisdom associated with age is more valued in other cultures, especially non-Western cultures.

Regarding the third point, any number of cultural experts have noted that traits associated with success in the US business culture – task orientation, focus on time, competitiveness, and directness – are consciously disapproved by some cultures.

In fact, the traits generally associated with females in the US – consensus building, relationship orientation, greater sensitivity to non-verbal cues – are traits valued in many non-Western cultures. And this, according to Grove and Hallowell, gives female assignees a definite advantage.

Question

Discuss on the myths that lead to the germination of risks about female expatriates.

Source: http://www.overseasdigest.com/odarticles/females.htm

3. ***Family Considerations:*** Apart from the accompanying partner's career, there are family considerations that can cause a potential expatriate to decline the international assignment. Disruption to children's education is an important consideration, and the selected candidate may reject the offered assignment on the grounds that a move at this particular stage in his child's life is inappropriate. The care of aging or invalid parents is another consideration.

4. ***Work Permit Refused:*** Some countries, such as the United States, are changing their legislation to facilitate employment related immigration, which will make international transfers some easier. The Social Charter allows for free movement of citizens of member

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countries within the European Union. It is therefore important that HR staff keep up-to-date with changing legislation in the countries in which the multinational is involved.

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

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

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

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

Example: U.K. multinational may select a Canadian-born Chinese to head up its Chinese facility. The majority of expatriate managers working in China were overseas Chinese from Malaysia, Singapore, Hong Kong and Taiwan. The underlying assumption appears to be that such appointments will reduce cross-cultural difficulties.

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

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

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

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

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

Equal employment opportunity laws are expressions of social values with regard to employment and reflect the values of a society or country. In parts of the Middle East, Africa, Asia, and Latin

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America, women have tended to have a lower social status and are not universally employed. Multinationals must be aware of legislation and ensure subsidiary compliance where appropriate.

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

5.2.1 Selection Process

Selection is the process by which the organisation chooses from among the applicants, those people who are perceived the best meet the job requirements. For each candidate, the organisation evaluates candidate skills, education, and experience to find the people who best 'fit' the particular job specification. Ideal selection identifies the best fit between the person and the job.

Example: **Employee Selection at Mitsubishi**

For the U.S. based Mitsubishi-Chrysler joint venture auto plant, employees are selected the Japanese way. The selection process lasts three days. On the first day, applicants are required to perform tasks that mimic factory jobs. Work-related tests are followed by a series of written, medical, and drug tests and a final screening by plant supervisors. The selection process tests individuals for high level of skills, dedication to their work, an aptitude for learning new work methods, teamwork is expected. Those who are selected must go through a rigorous training programme, where they learn technical skills, interpersonal skills, creativity facilitation, and idea-generation. They are taught efficiency in the form of the Japanese philosophy of 'kaizen', or continual improvement. This basic training is followed by several weeks of on-the-job training. Later, promotion decisions are based, in part, on how well candidates do in management development seminars and in-basket exercises. In any respect, human resource management is a priority task in Japanese firms.

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

There are seven basic factors in the selection process:

1. Application forms
2. Interviewing
3. Assessment centres
4. Employment testing
5. Reference checks
6. Physical examinations
7. Selection validation

Self Assessment

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Fill in the blanks:

6. PCNs may be the best people for the job because of special skills and ……..
7. Adaptation to ……. country may take a long time for PCNs.
8. Language and other barriers are eliminated for …….
9. ……. is the process by which the organisation chooses from among the applicants, people who are perceived to best meet the job requirements.
10. An emerging trend is the use of foreign-born nationals, recruiting from …….. groups living abroad.

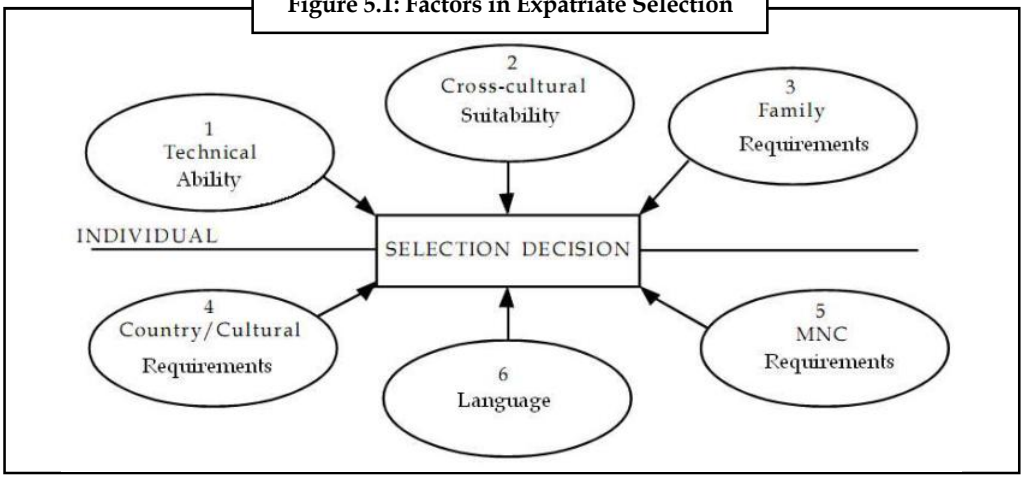
5.3 Selection Criteria

Selection is a two-way process between the individual and the organisation. A prospective candidate may reject the expatriate assignment, either for individual reasons, such as family considerations, or for situational factors, such as the perceived toughness of a particular culture. The factors involved in expatriate selection, both in terms of the individual and the specifics of the situation concerned are as follows:

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

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

Figure 5.1: Factors in Expatriate Selection



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

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3. ***Family Requirements:*** The contribution that the family, particularly the spouse, makes to the success of the international assignment.

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

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

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

   (a) The mode of operation involved

   (b) The duration of the assignment

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

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

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

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

Task You are the corporate HR manager of IT Company. Design the model for selecting the expatriates for the international assignments.

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Self Assessment

State whether the following statements are true or false:

11. The cultural environment in which expatriates operate is an important factor in determining successful performance.
12. Some regions and countries are considered 'hardship postings', areas T the centre of major cities and modern facilities.
13. The ability to speak a second language is an aspect often linked with cross-cultural ability.
14. Language skills may be regarded as not so important for some expatriate positions.
15. Language is not an issue for PCN selection within multinationals.

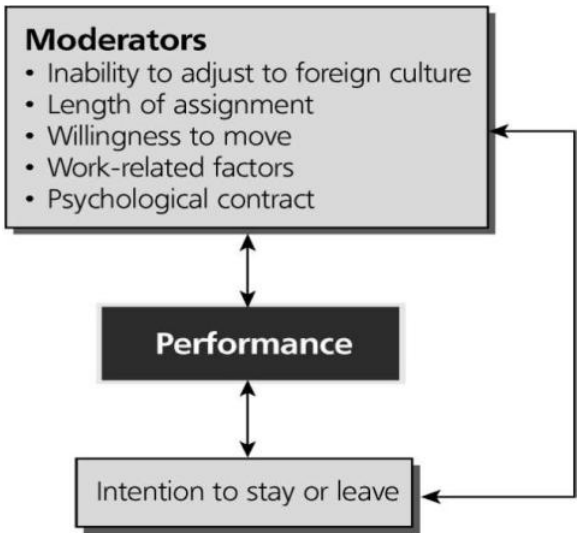
5.4 Factors Moderating Performance

Most expatriates are managers or highly-trained technical experts. They have the necessary technical and managerial skills, enhanced communication between parent company and foreign subsidiary. They are more familiar with corporate culture, enhancing parent-subsidiary relations. Assigning expatriates to foreign posts is an essential ingredient of their management development programme and their progress toward becoming an international manager.

Despite these advantages of using the expatriates for the international assignments, there are a number of factors that contribute to expatriate success or failure. There has been considerable research that has attempted to identify factors that may moderate performance and affect the decision to stay or leave the international assignment. The primary intention has been to link reasons for early recall to predictors of success and thereby generate selection criteria that may assist multinationals in their staffing decisions.

5.4.1 The Factors

Figure 5.2: Moderators of Performance and Their Possible Outcome



Source: http://cws.cengage.co.uk/dowling5/students/sample%20chapters/31017_05_Ch05_p109-136.pdf

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While the focus has predominately been on cross-cultural adjustment, other factors have also been identified, as depicted in the figure above. The importance of family considerations in cultural acculturation is also important factor determining the success of the expatriate.

Table 5.1: Factors Contributing to the Success of Expatriates

General Factors (Job Factors)	Specific Attributes (Technical Skills)
General managerial skills	Knowledge of HQ and host country operations Administrative competence
Relational Traits	Ability to tolerate ambiguity Behavioural flexibility Ability to be non-judgement Level of cultural empathy and ethnocentrism Interpersonal skills
Motivational State	Belief in the mission Congruence of assignment with career path Interpersonal skills
Family Situation	Willingness of the spouse to live overseas Adaptability and supportiveness of spouse Stability of marriage
Language Skills	Host country language ability Non-verbal communication ability

Factors can be broadly grouped under two heads affecting the success of expatriates, such as; general factors and specific attributes. General factors deals with the job-related factor while specific attributes refers to the technical skills and attributes.

Inability to adjust to the foreign culture: This factor has been a consistent reason given for expatriate failure and has been the subject of considerable interest to researchers. The 'inability of the spouse to adjust' to foreign environment has also been recognised as a significant reason. Let us understand the model described below.

Expatriation Adjustment Model

In recent years international human resource scholars have developed theoretical models that help explain the factors involved in effectively adjusting to overseas assignments.

There are two major types of adjustments that an expatriate must make when going on an overseas assignment. One is the anticipatory adjustment which is carried out before the expatriate leaves for the assignment. The other is the in-country adjustment which takes place on-site.

Anticipatory adjustment is influenced by several important factors. One individual factor is the pre-departure training that is provided. Other is the previous experience the expatriate may have had with the assigned country or similar cultures. These two factors help determine the accuracy of the expatriate's expectations.

Once on-site, there are a number of factors that will influence ability to adjust effectively. These include:

1. His ability to maintain a positive outlook in the face of high pressure, to interact with host nationals, and to correctly perceive and evaluate the host countries values a norm.

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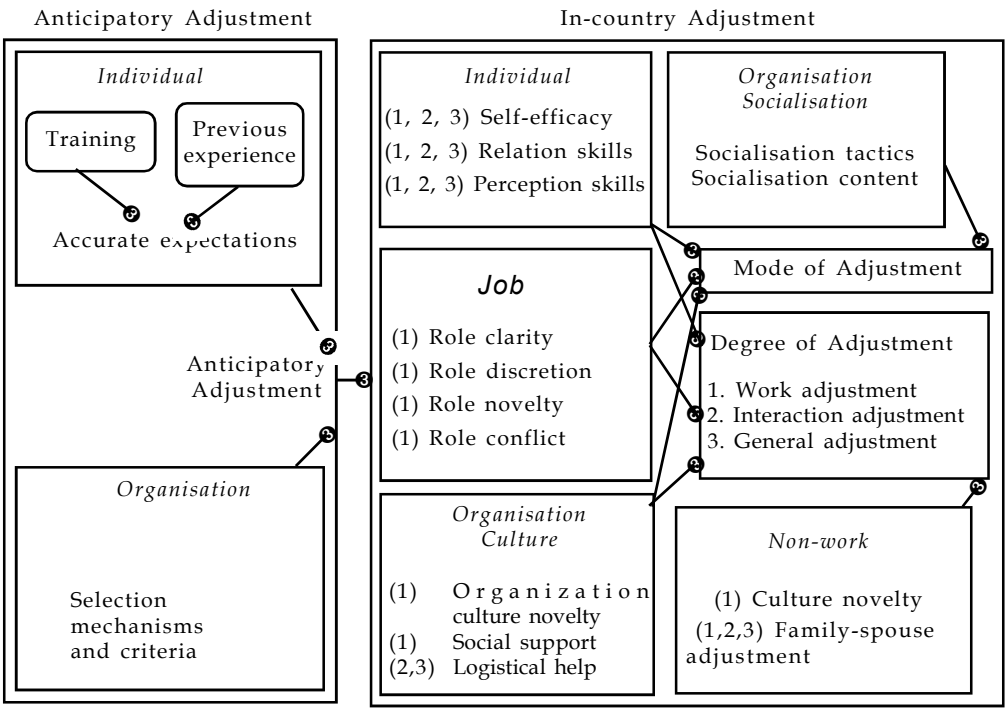
Figure 5.3: A Theoretical Model for Expatriate Adjustment



(Numbers in parentheses indicate the numbered facet(s) of adjustment to which the specific variable is expected to relate.)

Source: Academy of Management Review, April 1991 (p. 303)

2. The job factor itself as reflected by the role the expatriate plays in managing the host country's management team, the authority he/she has to make the decisions, the new ambience of work-related challenges and the amount of role-conflict that exists.

3. Organisational culture and how easily the expatriate can adjust to it.

4. The non-work factors such as the toughness with which the expatriate can adjust to the rigours of the new cultural experience and how well his or her family can adjust to the rigours of the new assignment.

5. Effective socialisation tactics, to know 'what is what' and 'who is who' in the host's organisation.

These anticipatory and in-country factors will influence the expatriate's mode and degree of adjustment to an overseas assignment. This explains why effective selection is so important and difficult.

Length of assignment: There is some evidence that length of assignment does contribute to adjustment and performance. A longer assignment allows the expatriate more time to adjust to the foreign situation and become productive.

Example: Japanese firms often do not expect the expatriate to perform up to full capacity until the third year; the first year of the foreign assignment is seen mainly as a period of adjustment to the foreign environment.

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Willingness to move: In a situation where an employee is a reluctant expatriate or accompanied by reluctant family members, it is more likely that they may interpret negatively events and situations encountered in the new environment. A study says that managers who are most ready for international relocations are those whose spouses are also supportive of that move – a not surprising finding. Other studies support the importance of a positive outlook.

Example: The reasons for lower British expatriate failure rates were that British managers were more internationally mobile than US managers, and that perhaps British companies had developed more effective expatriate policies.

Work environment-related factors: Adjustment to the work role itself was negatively associated with 'intent to stay'. Support for these factors as moderators has come from a study by Shaffer et al. of expatriates working in ten US multinationals. Job autonomy is also a powerful factor influencing expatriate turnover.

Another moderator is the perceived level of organisational support – from home as well as from the host unit. Further, once the expatriate has mastered, or nearly completed, the assigned work, other factors may surface and assume relative importance. For instance, if the work becomes less demanding and no longer so time-consuming, the expatriate may have time to pay more attention to negative cross-cultural experiences that the family is encountering. These negative experiences can become distorted when combined with lack of challenge at work and thus sow seeds for early recall, or under-performance.

5.4.2 Expatriate Failure

Expatriate failure is the premature return of an expatriate (that is, a return home before the period of assignment is completed). In such a case, an expatriate failure represents a selection error, often compounded by ineffective expatriate management policies. There is almost no empirical foundation for the existence of high failure rates when measured as premature re-entry. The expatriate failure is associated with the costs.

Direct costs include airfares and associated relocation expenses and salary and training. The precise amount varies according to the level of the position concerned, country of destination, exchange rates and whether the 'failed' manager is replaced by another expatriate. Many expatriate positions involve contact with host government officials and key clients. Failure at this level may result in loss of market share, difficulties with host-government officials and demands that expatriates be replaced with HCNs.

Failure has an effect on the expatriate concerned who may lose self-esteem, self-confidence, and prestige among peers. Future performance may be marked by decreased motivation, lack of promotional opportunities or even increased productivity to compensate for the failure. Finally, the expatriate's family relationships may be threatened.

Notes Below are mentioned various reasons that had been identified for the U.S. expatriate failure:

1. ***Transfer Anxieties:*** Foreign appointments tend to be poorly planned, creating a sense of disorder with the endless list of tasks associated with taking a foreign posting without proper planning, and fostering anxieties about the future with respect to both the foreign assignment and eventual return to the home country.

Contd...

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2. ***Career Problems:*** A foreign posting creates, for the expatriate, a number of career threats, being "out-of-sight, out-of-mind" and being passed over for promotion, the danger of coming home a 'stranger' with few familiar faces among the greeters, the possibility of being seduced by a foreign lifestyle and losing the desire to return.
3. ***Income Gaps:*** Income gaps can occur when compensation does not match the position or the high cost of living overseas.
4. ***Lifestyle Adjustments:*** Expatriates and their families experience major adjustment problems such as personal discomfort and uncomfortable living conditions, inability to purchase housing, being far from home, concern for children's education, health, and general activities, spouses that cannot work, go to school, etc. Medical limitations, concern for safety; and cultural/social problems.
5. ***Short-term Perspectives:*** Other expatriate problems are experienced because the foreign posting is too-often perceived as a short-term obligation.
6. ***Inappropriate Leadership:*** Short-term expatriate assignments result in a lack of continuity, what seems to be a constant change in policies and procedures, and inappropriate leadership.
7. ***Performance Appraisal:*** There is confusing, conflicting, and short-term criteria used in expatriate performance appraisal.
8. ***Business Environmental Issues:*** Expatriates must experience a number of problems in the business environment, including diverse business customs and practices, unfavourable, unfamiliar and unpredictable political climate, unfamiliar legal system and contractual practices, complex trade barriers and governmental interferences, unfamiliar and inhibiting labour relations problems, rigid status differences in levels of employees, exacerbated by varying and inadequate education and skills, control dilemmas, especially in centralised organisations, problems with the measurement of the contributions of the foreign subsidiary; inadequate and unpredictable transportation and communication systems, lack of facilities, scarcity of raw materials and component parts, inadequate technology; inadequate data and market research, advertising inadequacies, fluctuations in the local economy; underdeveloped financial markets, money exchange and money management difficulties, language barriers, conflict of cultural attitudes, values, and beliefs and terrorism.

5.4.3 Success in International Assignment

The key variables that influence the outcome of a successful expatriate assignment from the initial personal inputs of a particular desire for an international career along with capabilities which may influence eventual personal success and the corporate inputs of the strategies of internationalisation and international operations. Those personal propensities and abilities will act on a person's willingness as well as his own perceived suitability, to submit to a selection process of a particular nature. This might be to a longer-term commitment to an international 'pool' of high-flyers, or simply a one-off job.

On the company's part, the nature of selection will be dependent on the international strategy. This is closely bound up with the level of integration of expatriation in the organisation's operating strategy, as reflected in the nature of expatriation as a one-off assignment, part of a management development process that may partly be ad hoc, but where an overseas assignment is seen as part of developing general management capabilities, or an integral part of building a pool of high-flyers who can undertake assignments anywhere in the world.

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Once selected, and as a result of the corporate factors, the nature of integration into the management development process of expatriation may be continuous and progressive, it may be ad hoc. Or a foreign assignment may simply be a one-off decision which may have more to do with immediate corporate needs rather than management development. Decisions by the individual to submit to these 'different processes' and to make career decisions at any stage may be influenced by cultural factors.

The nature of the management development process will reflect these factors so that assignments seen as a progressive facet of development will require a more continuous process of training and development. It is unlikely that one-off, culture-specific training will yield the high degree of acculturation that may be needed in assignments with high relationship requirements. Ongoing development within a 'pool' is more likely to produce individuals who are highly adaptive across cultures.

So, success in an expatriate assignment is dependent on a combination of corporate and individual variables, as well as the dynamics of the expatriation/management development process. Success, or lack of success, including the longer-term outcomes for the corporation in pursuing its current policies of expatriation, will be fed back into the process. These will enable companies to modify the levels of integration into the management development process and will enable the individual to enhance his or her position in the company or make career choices that may take him or her outside the present company.

These could involve withdrawing from international assignments (and/or the management development process), going 'native' (that is, staying in the country of the assignment because of personal embededness within the local culture or environment), or exiting the existing company to pursue other career choices. Any of these choices may impact on the medium to longer-term success to the corporation (for example, losing individuals from the 'pool').

Task As an HR of the company, chart out the responsibilities to deal with the high failure rate of expatriates.

Self Assessment

State whether the following statements are true or false:

16. Inability to adjust to foreign culture is a factor that moderates the performance of expatriates.
17. A longer assignment allows the expatriate more time to adjust to the foreign situation and become productive.

5.5 Dual-career Couples

Accepting the international assignment will impact upon the career of the potential candidate's spouse or partner. The increase in the number of dual-career couples is a worldwide trend, one that is posing a dilemma for both companies and employees alike. Fewer U.S. employees are willing to relocate, either domestically or internationally, without the support of their spouses, to the extent that the career-couple challenge is now an issue that multinational employers cannot ignore.

The majority of companies (86%) admitted they had turned down assignment offers. The main reasons for refusals were domestic/family concerns (77%) and dual-career issues (58%). Reflecting this global trend, the impact of the accompanying spouse's or partner's career orientation upon

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the international assignment is an emerging area where career orientation not only affects the couple's willingness to move but negatively affects performance and retention in the foreign location.

Most companies use informal or ad hoc approaches to addressing the problems of their expatriate career couples. In isolation or with industry colleagues, companies are beginning to generate innovative programmes and interventions to assist this special breed of couples. Strategies multinationals have experimented with include:

1. ***Inter-company networking:*** Multinational attempts to place the accompanying spouse or partner in a suitable job with another multinational–sometimes in a reciprocal arrangement.
2. ***Job-hunting assistance:*** Multinational provides spouse or partner assistance with the employment search in the host country.
3. ***Intra-company employment:*** Sending the couple to the same foreign facility.
4. ***Support of "commuter marriages":*** The spouse/partner may decide to remain in the home country, and the couple works out ways to maintain the relationship with the help of the firm. When a major U.S. multinational assigned a female expatriate to its Australian subsidiary for 18 months, her husband remained in Chicago. The multinational supported this arrangement through subsidised telephone bills and three return airline tickets.
5. ***On-assignment career support:*** Motorola is an example of how a multinational may assist spouses to maintain and even improve career skills through what Motorola calls its Dual-career Policy. This consists of a lump-sum payment for education expenses, professional association fees, seminar attendance, language training to upgrade work-related skills, and employment agency fees. There are conditions attached, such as the spouse must have been employed before the assignment. Thus, if the spouse is unable to find suitable employment, the time can be spent on career development activities.

5.5.1 Female Expatriates

The selection of female for international postings is a related issue.

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

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

There is no question that women receive fewer opportunities for overseas postings, and what foreign assignments they get are usually short ones, with two-week projects being most common for women. A study by Adler (1984) reported that only 3% of U.S. expatriates were women. This shortage of women expatriates is found to exist because:

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

(2) corporations resist the idea of sending women abroad; and

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(3) foreign prejudices against women would tend to make them ineffective. Adler refutes the first argument, finding no difference between male and female MBA graduates with respect to their attitudes toward overseas assignments. She found validity to the second point, citing reasons such as the prejudices of foreigners, dual-career families, and concerns over the potential danger inherent in some overseas postings. She also found support for foreign prejudices that would make women less effective—especially in Middle Eastern nations.

In 1989, six years after Alder's study, a survey by Moran Stahl and Boyer Inc. reported (Solmon, 1989) that women received 5% of U.S. expatriate assignments, but 80% of the respondents noted the following disadvantages to posting women in foreign lands:

(1) many foreign clients refuse to do business with women;

(2) men must be assigned in many locales to provide the required conservative corporate image; and

(3) it is unreasonable to send women into some countries, such as Pakistan or Saudi Arabia. Although there is paucity of research on the subject, it appears that women are making some gains in the expatriate area, but significant improvements are constrained by moderate prejudice at home and cases of extreme prejudice abroad. Even in places such as the U.S., where women are becoming more accepted at the workplace, the pay gap between male and female workers still exists (Fortune, 1994).

Notes **Women Managers in India**

Although Indian women have a track record holding important political positions, too few have achieved similar success in ranks of business management. Progress in this area is still held back by traditional beliefs that women are second class citizens whose place is in the home. Too many Indian women deny themselves opportunities simply because they have no interest in managerial careers. However, as more women excel in politics and in elected offices, their acceptance and interest in corporate boardrooms are increasing gradually.

Task Taking the example of HSBC explain the steps taken by the organisation to deal with the problem of dual career role.

Self Assessment

State whether the following are true or false:

18. Multinational never assists spouse or partner assistance with the employment search in the host country.

19. MNCs may send the couple to the same foreign facility, this is called Intra-company employment.

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Case Study

IHR Policies at SCA

Although SCA's history dates back to a number of 1700th century companies its present history did not start until 1929 when the company was incorporated as a holding company for some ten forest companies producing sawn goods and paper pulps in northern Sweden. Today SCA has developed into a global consumer goods and paper company that develops, produces and markets personal care products, tissues, packaging solutions, publication papers and solid-wood products with an annual turnover of 96 385 million SEK. SCA has about 51,000 employees in some 50 countries around the globe. The workforce is mainly, situated in Sweden, Germany, UK and US. Each of those countries has approximately 5000–6500 employees.

SCA ensures that host country operations conform both to the country's status and the company's status. Although, the decentralised characteristic of the organisation SCA still work very closely with other business units around the world. Therefore it is a common case that employees at different levels of the organisation will meet and interact with employees from other countries. As a result employees will learn how to do things outside of their own perspective. SCA provides with a lot of opportunities to go abroad to work and the employees feel that they can make a difference since it is an environment open for changes. SCA's code of conduct is based upon the core values of Respect, Excellence and Responsibility, which brings together a set of universal standards that indicate what SCA expects of its businesses and employees regardless of location or background. However, these standards are not entirely new as they update revise and summarise in one convenient place many of the policies and principles SCA has remained over several years.

Facilitating Adjustment

The factor of *role* is not regarded as decisive for work adjustment by Mr. Gatenheim as he claims that an expatriate manager does not behave any differently in the host-country than he would in the home-country. The style of leadership is connected to a person's personality and is for that reason difficult to change. In addition, it is not expected by the expatriate to behave in any particular way as long as he/she conforms to the ethical codes of a country and that he/she appear as an excellent representative of SCA. *Role discretion* is not considered of high importance for expatriates during an assignment. However, the company puts emphasis on expatriate managers to be aware of the fact that employees from different countries perceive managers differently. Mr. Gatenheim explains that an expatriate manager whose style of leadership does not correlate with the local circumstances risks to be replaced. SCA provides the expatriate with the necessary support needed to facilitate adjustment. However, it is important to have in mind that they do not receive any other additional support compared to employees in the home-country. Mr. Gatenheim states that there are no formal support strategies between co-workers and expatriates. However, SCA develops social networks with the purpose of creating a forum for expatriates and their families to ventilate and reflect with others in the same situation. The organisation brings together expatriates from the same nationality or origin in order for them to remain their familiar social bounds. Although the *social support from co-worker* is an important aspect for facilitating adjustment, the company claims that the most important relationship is the *superior co-worker relationship*.

Local managers brief the employee so that he/she will have a chance to become familiar with his/her workplace. The introduction introduces the employee to the organisation,

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he/she will soon gain good overall picture of the organisation as they are presented with the product, its way of producing, marketing, the organisation etc. The employee is also presented with the organisation's values and policies. Moreover, the organisational culture of SCA is distinguished by care and compassion for the employee and there is always someone who you can talk to when difficulties arise. In addition, relocation firms are hired when the expatriate arrive to his/her destination with the purpose of providing *logistical support* by managing all the practical aspects of moving to another country. This is done in order to facilitate adjustment at a much faster pace, so that the expatriate can focus on his/her work immediately instead of arranging the new place of living Mr. Gatenheim explains that although the organisation is relatively decentralised the *organisational culture* remains the same and as a result expatriates are not experiencing any difficulties of adjusting to the new workplace. However, in newly acquired businesses it could be difficult for managers of the original company to adjust to the new organisational culture as the new control makes them feel uncomfortable. In many instances the organisation eventually has to dismiss the manager in order to make the transition successful. Managers in minor companies can often remain in office for a while but in the long run it becomes difficult for them to adjust and they are eventually dismissed. The *expatriation strategies* of SCA are no different for an employee of higher rank or someone with different work tasks.

All contracts and policies are handled from Sweden in order to ensure that everyone is treated equally. It is noticeable that the whole process becomes more effortlessly the more often people move as they learn how to manage changes. The reality is that the majority of the expatriates who leaves the home country for a mission abroad advance in their career by moving on with other tasks in other countries. However, the expatriate's compensation is to some extent affected by his/her origin, but that will be further discussed in the compensation section. SCA is aware of the fact that in order for an expatriate to be successful in his/her new environment *support to the family* is an important factor. For that reason SCA has developed a well thought out strategy for supporting the family both financially and logistically. The families are handed a pension plan and employment when it is possible. However, a majority of the spouses, mostly women, do not want the company to find them a job in the new country. Mr. Gatenheim explains that 92 percents of the expatriates are from countries outside Sweden and for them it is not as common that the wife has a career of her own, she prefers to stay at home taking care of the family. In some locations it is very difficult to find a suitable job for the spouse a fact that obviously becomes complicated for the dual-career couple. Furthermore, Mr. Gatenheim states that the company compensate its expatriates costs for education and day-care. Sometimes candidates turn down an opportunity to work abroad since they do not believe that their family will enjoy it there. However, that is very unusual and those cases are most often linked to expatriates being placed in developing countries. Concerning what *individual characteristics* that are determining for an expatriate's adjustment the respondent states that self-awareness is a key for a successful assignment. Flexibility is another aspect regarded important by Mr. Gatenheim. These aspects are tested carefully before an expatriate is selected.

Mr. Gatenheim further explains that the expatriates who are sent on foreign assignments always has the qualities of being a good worker and competent in the field of finance or engineering. Another aspect that SCA considers important is language as the company claims that employees with operative tasks must master the language, especially from a safety perspective. However, when it comes to more demanding positions such as specialist or international consultants then the shared and most accepted language is English.

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Question

How does SCA ltd. facilitate adjustment of its expatriates?

Source: http://epubl.ltu.se/1402-1552/2007/005/LTU-DUPP-07005-SE.pdf

5.6 Summary

- The four approaches to multinational staffing decisions—ethnocentric, polycentric, geocentric, and regiocentric—tend to reflect the managerial philosophy towards international operations held by top management at headquarters.
- In the human resource cycle, recruitment and selection process are the main variables influencing directly the 'performance' as also the 'employee development processes'.
- Recruitment is defined as the process of identifying and attracting the potential candidate from within and outside an organisation to begin evaluating them for future employment.
- The four generic processes: selection, performance appraisal, rewards management and human resource development reflect sequential managerial tasks.
- Human Resource Management is crucial to organisational competitiveness and productivity due to the growing diversity of the world's workforce and its increasing importance. The need to manage this diversity better has become a major challenge to the international manager.
- There are various issues which have to be taken care before selecting the expatriates for an international assignment.
- Indian women have a track record holding important political positions too few have achieved similar success in ranks of business management like Indira Nooyi, Kiran Majhumdar, Chanda Kocchar, etc.
- For companies developing a geocentric staffing policy, transferring subsidiary staff to other subsidiaries, as well as to headquarters, is an important part of creating an international team.
- Selection is the process by which the organisation chooses from among the applicants, those people who are perceived the best meet the job requirements.

5.7 Keywords

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

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

Expatriate: An employee who lives and works in a foreign country.

External recruitment: Applicants are from outside the organisation.

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

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

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

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

5.8 Review Questions

1. Being the HR of the company, justify the use of PCN, TCN and HCN (various nationality groups) in selecting managers for the international assignments.
2. Examine the factors to be taken into account while selecting expatriates.
3. Critically examine the factors that lead to the failures of the expatriates in the international assignments.
4. Explain the theoretical mode developed to explain the factors involved in effectively adjusting to overseas assignments.
5. What factors do you think plays a dominant role in failure of the expatriates?
6. Analyse the general and specific factors contributing to the success of expatriates.
7. Critically examine the factors that lead to the modification of the expatriate performance in international assignments.
8. Outline the reasons for the shortage of the women expatriates in international assignments. Justify giving examples.
9. Differentiate among PCNs, TCNs and HCNs.
10. How recruitment and selection process in international assignment affects the performance of the expatriates? Justify giving examples.

Answers: Self Assessment

1.	Attracts	2.	Planning
3.	Referrals	4.	Ethnocentric
5.	Geocentric	6.	Experiences
7.	Host	8.	HCNs
9.	Selection	10.	Ethic
11.	True	12.	False
13.	True	14.	False
15.	True	16.	True
17.	True	18.	False
19.	True		

5.9 Further Readings

Books

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Notes

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Unit 6: Re-entry and Career Issues

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Objectives

After studying this unit, you will be able to:

- Describe the process of re-entry or repatriation
- Discuss job-related issues
- Explain the social factors, including family factors that affect re-entry and work adjustment
- Interpret multinational responses to repatriate concerns
- Design a repatriation program

Introduction

There have been considerable advances in our understanding and knowledge of the issues surrounding the management and support of expatriates in international assignments. Expatriation process also includes repatriation. It is the activity of bringing the expatriate back to the home country. Managers understand repatriation needs careful managing the people returning back to their hone country. For returning expatriates, re-entry typically is associated with a great deal of emotion. Sadness, excitement, and trepidation are mixed together. Expectations of a smooth resettlement often lead the way.

6.1 Repatriation

The central tenet of an individual's re-entry challenge is psychological. The word "re-entry" implies going back, returning to something that is known from prior experience. But to what? Perhaps to the broad fabric of one's home country, the actual home or neighbourhood one lived in before the international assignment, or the lives of friends and family, or a school system.

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There is a tendency for repatriates to expect several things:

1. Although people and places change, relationships that were once vital will continue to be so;
2. Family and friends will be as eager and excited to hear about their adventures as they are to speak about them;
3. Activities and/or job responsibilities that inspired them before they left will continue to do so;
4. They will feel relaxed, at ease, and "at home" because they are once again in a familiar cultural and physical environment; and
5. Their broader perspective on life, abilities to deal effectively with diversity, and their understanding of the global nature of the human condition will be acknowledged and valued.

The actual experience of return proves, however, that to varying degrees all of the above assumptions are false.

Returnees often are surprised to experience a re-entry cycle similar in form, but often more intense, to the one they encountered during their experience abroad, this is termed as Re-entry Shock. Intercultural practitioners know that professional integration is a key during repatriation. Issues of career development and job effectiveness have been in the limelight of re-entry training.

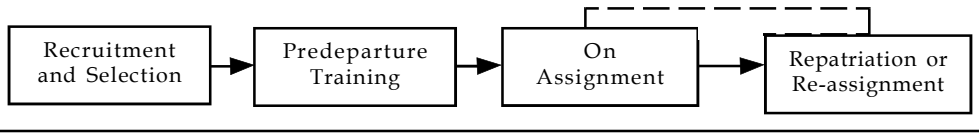
Career advancement often is cited as a major reason for accepting an international assignment. It follows that expatriate returnees wish to be kept abreast of changes in the home office. They want to stay closely in communication with the major players while they are away, and they are concerned about the timing of and their job responsibilities on return.

The perception of having job responsibilities that are a "good fit" with capabilities developed overseas has an important influence on the employee. This may be rated as more important than a salary increase in contributing to repatriates' satisfaction with the new domestic assignment. Finding such a good fit is complicated by several factors, one of which is the expectation of colleagues who have not been abroad.

6.1.1 Repatriation Process

On completion of the foreign assignment, the multinational brings the expatriate back to the home country. But all international assignments do not end with a transfer home–rather; the expatriate is re-assigned to another international post. Expatriation and repatriation are interrelated.

Figure 6.1: Expatriation Includes Repatriation



Re-entry into the home country presents new challenges as the repatriate (returning person) copes with re-entry shock, or reverse culture shock. While people frequently expect life in a new country to be different, they may be less prepaid for homecoming to present problems of adjustment. As a consequence, it can be a traumatic experience for some even more than what was encountered in the foreign location. From the multinational's perspective, repatriation is

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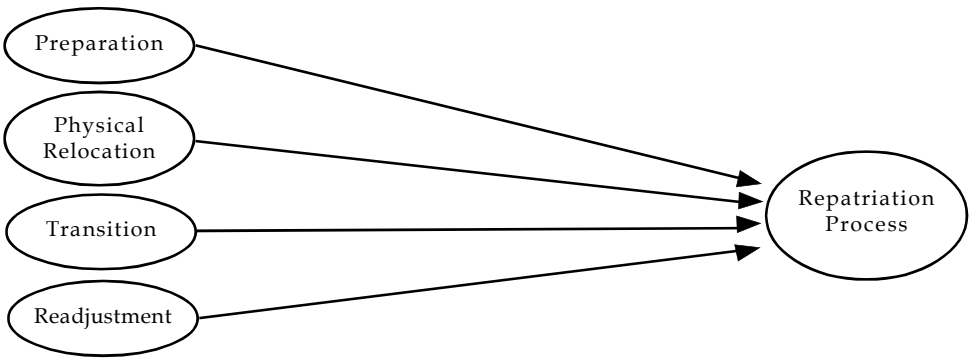
frequently considered as the final stage in the expatriation process but the multinational's ability to attract future expatriates is affected by the manner in which it handles repatriation.

Some expatriates may agree to become part of the multinational's international team of managers, and thus have consecutive international assignments. But at some point, members of this international team or cadre will face repatriation, so there are different concerns that need to be addressed.

It is possible to divide repatriation into four related phases:

1. ***Preparation*** involves developing plans for the future and gathering information about the new position. The firm may provide a checklist of items to be considered before the return home (e.g., closure of bank accounts and settings bills) or a thorough preparation of employee and family for the transfer home.
2. ***Physical relocation*** refers to removing personal effects, breaking ties with colleagues and friends, and travelling to the next posting, usually the home country. Most multinationals use removal firms or relocation consultants to handle the physical relocation, both for the movement out and the return home of the employee and family, and this may be formalised in their HR policies. Comprehensive and personalised relocations assistance reduces the amount of uncertainty, stress, and disruption experienced by the repatriate and family.
3. ***Transition*** means settling into temporary accommodation where necessary, making arrangements for housing and schooling, and carrying out other administrative tasks (e.g., renewing driver's license, applying for medical insurance, opening bank account).
4. ***Readjustment*** involves coping with reverse culture shock and career demands. This phase seems to be the least understood and most poorly handled.

Figure 6.2: Repatriation Process



Source: P J Dowling, International HRM (2001) p. 206

6.1.2 Factors Adding Complexity to Re-entry Process

The re-entry process is a complex interaction of several factors and grouped the major factors under two headings: Job-related Factors and Social Factors.

1. ***Job-related Factors:*** These focus around future employment prospects as a consequence of the international assignment, value being placed on the person's international experience, coping with new role demands and the loss of status and financial benefits upon re-entry. They are:

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(a) *Career Anxiety:* Expatriates are motivated to accept an international assignment due to career advancement and financial gain. The prime factor in re-entry is career anxiety. This can emerge prior to the physical relocation and can affect productivity during the last couple of months of the international assignment as the person contemplates the re-entry process. The causes for career anxiety are:

(i) No post-assignment guarantee of employment: This is becoming a harsh reality for the majority of those on international assignments. Repatriation more often leads to redundancy, as the 1990s trend away from re-entry job guarantees continues.

Majority of expatriates did not guarantee a position at home upon successful completion of the overseas assignment. Lack of job security results in career anxiety which commences prior to homecoming, and acts as a readjustment moderator upon re-entry if career outcomes are not realised.

Example: In International HR practices in German and UK firms, it is found that the majority of German firms offered a guaranteed job upon return from the foreign assignment, whereas the majority of UK firms admitted that they were not able to offer jobs upon repatriation.

(ii) Fear of out of sight, out of mind: It is the fear associated with the expatriate that the period overseas has caused a loss of visibility and isolation, which brood over the end of the international assignment as the person begins to consider the re-entry process and depends on various elements: the amount of contact that the person has had with the home organisation, the position level concerned and whether the person is aware well in advance of the type of re-entry job awaiting in the home country. Lack of information may increase the level of anxiety, leaving the person with a decided impression that the company has not planned adequately. If there is no post-assignment job guarantee, the anxiety level will be exceptionally high.

(iii) Change in the home workplace: Anxiety can be exacerbated by informal communication from home-based colleagues about organisational changes like MNC is in the process of a major restructuring, the aftermath of a merger or acquisition, or sale of divisions or business units. These changes are usually accompanied by job-shedding. Knowledge of such changes and potential or real job loss naturally will add to the level of anxiety, particularly if the expatriate does not have a guaranteed job upon repatriation.

(b) *Work adjustment:* Work adjustment has an important impact on a person's intent to stay with the organisation. Career anxiety is the moderating factor but others may lead to readjustment problems. They are:

(i) Employment relationship: An individual's career expectations are based on clear messages sent by the top management to the effect that an international assignment is a condition for career progression. These pronouncements can be made in the context of the need for a global orientation or mindset where a definite link is made between international experience and global managers. Perceptions regarding expected career outcomes also are influenced by comments made by HR or line managers during the recruitment and selection stage.

Unmet expectations or unfulfilled promises can provoke intense feelings of betrayal and violation of the psychological contract. The psychological contract is a moderator of re-entry readjustment as well as on-assignment adjustment

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and performance in the international assignment would result in career advancement. When the expected promotion does not eventuate, the repatriate may feel there is no option but to leave the organisation.

(ii) Re-entry position: Fears surrounding future employment and career development can materialise. Peers are promoted ahead of the repatriated manager, and the repatriate sometimes is placed in a position that is, in effect, a demotion. The situation may be exacerbated if the repatriate had held a senior position in the foreign location and now finds himself at a less senior level. As a consequence, the re-entry position is frequently judged by whether it matches the repatriate's career expectation, particularly when the international assignment has caused considerable family disruption, such as forced break in the career of the accompanying partner or difficulties experienced with the education of the children involved.

(iii) Devaluing the overseas experience: Career progression is important but to be promoted upon re-entry signifies that international experience is important and valued by the organisation. Career anxiety is compounded if the re-entry position does not appear to be connected with the person's international experience. Repatriates find themselves in 'holding' positions, such as a task force or project team, in temporary positions, engaged in duties that do not appear to exploit their newly gained, international expertise.

The perceived degrading of the repatriate's recent experience may be coupled with negative career progression. The re-entry position is a less challenging job with reduced responsibility and status than that held either during the international assignment or prior to the period abroad. This combination can have a demotivating effect on the repatriate, as well as affect the multinational's ability to attract potential expatriates.

(c) *Coping with new role demands:* Re-entry poses a challenge for the repatriate and frequently reveals a mismatch of expectations which affect the repatriate's perception of the new role, especially if an anticipated promotion doesn't materialise. Effective role behaviour is an interaction between the concept of the role, the interpretation of the expectations, the person's ambitions, and the norms inherent in the role.

Readjustment problems occur because, although the repatriate is attempting to function back in the home country, his role conception remains influenced by that of the foreign assignment. While the repatriate may retain the role conception, and the cultural norms regarding behaviour appropriate to that role, the foreign subsidiary's influence may linger. As shown by the broken line between the role sender and role recipient boxes at the top, there is a 'corporate boundary' to be crossed in the communication of the role conception between the role recipient (the repatriate) and the role sender (the home company). The role sender may not recognise the cultural and corporate boundaries that affect the repatriate's role conception and role behaviour, and thus unwittingly contribute to readjustment problems.

Example: An American working in Indonesia may have altered his participative managerial style to one more authoritarian based on message sent by the foreign subsidiary, or it could be that the time in the Indonesian subsidiary has repatriate does not resume the managerial behaviour appropriate to the U.S. context upon return.

The elements of the repatriate's role as a focus for a discussion of the readjustment issues related to role behaviour are shown in the Figure 6.3:

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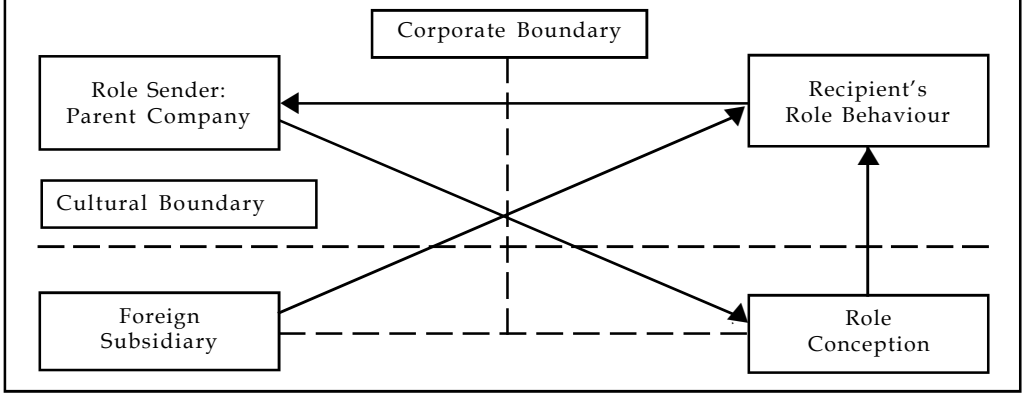
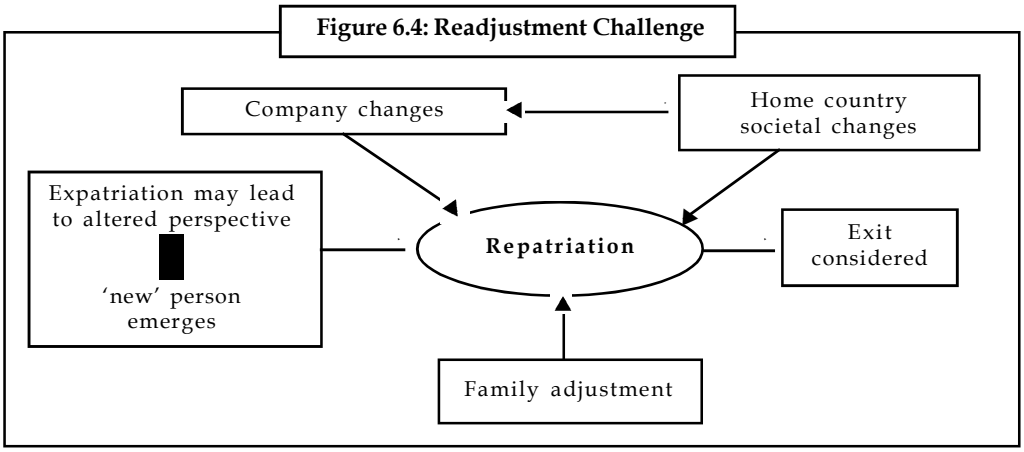
Figure 6.3: The Repatriate Role



Source: International Studies of Management and Organisation, vol. 15, no. 1, p. 69

The period abroad does alter the person. The experiences of living and working in another country can after the person's self-efficacy. The expatriate position commonly involves a more demanding job position. Learning how to successfully cope with the various challenges encountered during the foreign assignment may give the person more self-confidence, along with a broader perspective. These changes may be subtle for some people, for others they can be profound – and are influenced by factors such as length of time spent abroad, country of assignment, and individual differences such as age and personality. The re-entry shock experienced by the repatriate may be as much a function of the degree to which the person has altered.

Figure 6.4: Readjustment Challenge



Source: Dowling et al., International HRM (2005), p. 168

The repatriate encounters changes in the formal and informal information channels in the home organisation, particularly if there has been widespread restructuring and downsizing. Technological advances in the multinational may render the repatriate's functional skills and knowledge out dated. When coupled with other job-related problems, these changes make work adjustment a difficult process.

(d) *Loss of status and pay:* The international assignment is a form of promotion. It carries greater autonomy, a broader area of responsibility and, at the top management level, a prominent role in the local community. The result is higher status. Some expatriates use the term kingpin to describe their positions abroad. Upon return, the repatriate is expected to resume his position within the home company – with the

Notes

loss of status and autonomy. So, the repatriate is treated as just another company executive. This shift may cause readjustment problems.

Compounding the problems is the loss of expatriate premiums. Employees are brought home to resume life on a scale that may be significantly less comfortable than what they had grown used to abroad. Pay is usually lower in absolute terms.

The returning manager is no longer able to afford to buy a home similar to the one sold a few years before. Providing expatriate with better housing than they had at home may contribute to repatriation problems. This creates somewhat of a dilemma for US - HR managers. A drop in the standard of housing conditions has a negative impact on the adjustment of U.S. repatriates.

Did u know? Patriation is a non-legal term used in Canada to describe a process of constitutional change also known as homecoming of the constitution. It is based upon repatriation, since critics of the use of the word repatriation pointed out that the constitution could not return to Canada, as it was not formulated in Canada in the first place. Thus the term patriation was coined as a word meaning to make something part of one's own nation.

2. ***Social Factors:*** The familiar surroundings of the home environment eases the transition or at least the cultural adjustment will not be as demanding as that confronted in the foreign country. International experience can distance the repatriate, and his family, socially and psychologically. If the expatriate position gave the person a high profile, involving interaction with the social and economic elite, the return home may bring with it some measure of social disappointment, thus reinforcing the kingpin syndrome.

   Where spouses, partners, and children are involved, each family member is experiencing his own readjustment problems. As a coping behaviour in the foreign location, others may have glamourized life back home. Life at home may now seem dull and unexciting, and the family may begin to glamourize the life they left behind in the foreign location. These reactions can be compounded if the family income has been reduced upon repatriation. Impressions generated about changes in the home country may depend on how effectively the family has been able to keep up-to-date with events back home.

   Re-establishing social networks can be difficult, especially if the family has been repatriated to a different state or town in the home country. Families who return to their previous domestic locations often find that friends have moved away. Children may find re-entry difficult. Coming back to school, attempting to regain acceptance into peer groups, and being out-of-touch with current slang, sports, and fashion can cause problems.

3. ***Effect on Partner's Career:*** Partners encounter difficulties in re-entering the workforce, if the partner has not been able to work outside the home prior to, or during, the foreign assignment, but now desire to find outside employment. Negative experiences during the job search may affect the partner's self-worth, compounding the re-adjustment process and even cause tensions in the relationship.

   Readjustment of the expatriate, whether male-led or female-led, may be linked with concerns that the foreign assignment might have on the partner's career. Given that dual-career couples are on the increase and that more females expect international assignments, the issue of the partner's career is likely to become a major factor determining staff availability for future international assignments.

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Caselet

Happy to be going Home

A US family, from the mid-west, was posted to Melbourne, Australia. The expatriate's role was to assist the Australian subsidiary improve its quality control and supplier relationships. Chuck was placed in charge of the purchasing department. After 12 months, he had successfully established good links with the company's key component suppliers and was in the process of arranging joint company quality training programmes with these suppliers to ensure the newly-instigated just-in-time inventory procedure was on a sound footing. Chuck was enjoying his new role. Meanwhile, his 10-year-old daughter was finding it difficult to make friends in the expensive private school the company had arranged for her to attend. His wife was also finding life in Australia somewhat hard to cope with. "On the surface, it seems so much like home, but Australians are not at all the same as us Americans, and some people make disparaging remarks about us. They use terms such as 'Yanks'. I miss not being able to find familiar things, such as brownie mix, in the supermarket." Both wife and daughter were very happy when circumstances provide an acceptable reason for an early end to Chuck's assignment. His elderly mother suffered a bad fall, and there were no other family members to take care of her. The family was repatriated after 14 months into a 3-years assignment. The expatriate was replaced by another PCN.

Source: Rao, P. L. *International Human Resource Management: Text and Cases.*

Self Assessment

Fill in the blanks:

1. …….. is returning to one's home country, the actual home one lived in before the international assignment.
2. Issues of career ……. and job effectiveness has been in the limelight of re-entry training.
3. Expatriation and repatriation are ……...
4. ……..... phase of repatriation involves coping with reverse culture shock and career demands.
5. The familiar surroundings of the home environment ease the transition or at least the cultural ……. is not as demanding as that confronted in the foreign country.

6.2 Multinational Responses

Managing the process of repatriation should be of concern to multinationals that desire to maximise the benefits of international assignments and create a large internal labour market. A well-designed repatriation process is important in achieving these objectives, for three main reasons: staff availability, return on investment and knowledge transfer.

1. ***Staff Availability:*** The way in which the multinational handles repatriation has an impact on staff availability for future needs. Re-entry positions signal the importance given to international experience. If the repatriate is promoted or given a position that obviously capitalises on international experience, other members of the multinational interpret international as a positive career move.

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If the multinational does not reward expatriate performance, tolerates a high turnover among repatriates or is seen to terminate a repatriate's employment upon re-entry, then the workforce may interpret the acceptance of an international assignment as a high-risk decision in terms of future career progression within the organisation. The multinational's ability to attract high-calibre staff for international assignments is thereby lessened, and this can have a negative effect on the multinational's activities in the long-term.

2. ***Return on Investment (ROI):*** Expatriates are expensive. Multinationals try to localise positions through the employment of HCNs but not all positions can be localised. The alternative is a short-term or non-standard assignment to replace the traditional expatriate form. Cost containment is the drive here along with staff immobility.

Example: US multinational spends around one million dollars on each expatriate over the duration of a foreign assignment. And if approximately one in four repatriates exits the firm within 1 year of repatriation, it is a substantial financial and human capital loss to the firm, especially if the skills, knowledge, and experience that the individual gains are important to the firm and scarce in the internal or external labour markets.

Getting a return on this investment would appear to be an important objective, but not easy to achieve. ROI concentrates on the international assignment period, and can be substituted by a cost-benefit analysis to justify a decision to replace expatriates with HCNs, rather than considering gains that accrue to the organisation through repatriated staff.

3. ***Knowledge Transfer:*** Common theme in international business that is stressed by company managers is the need for cross-fertilisation of ideas and practices that assist in developing and maintaining competitive advantage. International assignments are a primary method of achieving this objective. Organisations need to make sure that their business, strategies are supported by sound mobility strategies regardless of national boundaries will be increasingly vital to the success of a global organisation.

Given the roles played by expatriates, along with their cost, it is reasonable to expect that multinationals would endeavour to retain key staff and to extract and build upon their international experience.

Several conclusions regarding repatriate attrition rates can be drawn:

1. Knowledge transfer is treated as a one-way activity.
2. Expatriates are sent on international assignments and effectiveness is determined on the performance of their ascribed roles and work responsibilities.
3. Any transfer of knowledge and competence occurs there in the host location, and remains there. Expatriates return to their home base and are reassigned or resign.
4. While performing their tasks in the host location, expatriates develop skills and gain experience, knowledge and network relationships that can then be used upon repatriation in some way or another.

Example: A project manager working in Russia can report, on re-entry to his UK home base, technical problems encountered and solutions that were developed to overcome these problems, thus sharing the experience. However, not all of the knowledge about that project is explicit. Much will remain tacit and person-bound. What is codified and made explicit often is retained could be applicable to other projects or types of business concerning Russia, such as important contacts, management styles and some technical solutions.

Notes

Notes The trend towards not providing post-assignment position guarantee suggests that multinationals accept loss of experience, knowledge and competence; that repatriates effectively forced to leave the organisation will take with them the vital and valuable knowledge, allowing competing firms to reap the benefits of a substantial investment in human capital.

Self Assessment

Fill in the blanks:

6. ……. is the way in which the multinational handles repatriation has an impact on staff availability for future needs.
7. Organisations need to make sure that their business …… are supported by sound mobility strategies.
8. ……. are sent on international assignments and effectiveness is determined on the performance of their ascribed roles and work responsibilities.

6.3 Designing a Repatriation Programme

While there is no simple and quick solution needed to prepare the repatriate and family for re-entry. The potential for mismatch of expectations regarding the future may be addressed as part of pre-repatriation training before the return, and discussed during re-entry counselling sessions (sometimes referred to as debriefing) between the receiving organisation in the home country and the repatriate.

A list of topics covered in formal repatriation programme is:

1. Preparing, physical relocation, and transition information, what the company will help with.
2. Financial and tax assistance, including benefit and tax changes, loss of overseas allowance.
3. Re-entry position and career path assistance.
4. Reverse culture shock, including family disorientation.
5. School systems and children's education, including adaptation.
6. Workplace changes, such as corporate culture, structure, and decentralisation.
7. Stress management, communication-related training.
8. Establishing networking opportunities.
9. Help in forming new social contacts.

Mentoring: Some companies assign the expatriate a mentor (also referred to as a company contact, sponsor, or 'godfather'). The mentor is usually in a more senior position than the expatriate, from the sending work unit, and knows the expatriate personally. The rationale behind the use of a mentor is to alleviate the "out-of-sight, out-of-mind" feeling. So that the expatriate is more prepared for conditions faced upon re-entry. A mentor should also ensure that the expatriate is not forgotten when important decisions are made regarding positions, promotions and so on.

Notes

Notes The practice of mentoring has to be managed effectively. Mentor assists the expatriate adjust during the foreign assignment but does not necessarily help in re-entry. An effective mentor is likely to alert the firm of the imminent return of the repatriate and thus affect the re-entry position, or the practice is part of a managed repatriation programme.

Although recognition of the importance of repatriation programmes is increasing, and companies are experimenting with other measures such as mentors, other avenues could be explored, such as using repatriates as an important information source. Inviting repatriates to assist in developing repatriation programmes may contribute to relevant and effective policies. It may also have a desirable side-effect upon readjustment, simply by giving participating repatriates a sense that they are not an underutilised resource, and that the firm recognises they can make a valuable contribution to the expatriation process.

Example: AT&T has an effective three part repatriation program one that actually starts before the employee leaves for the assignment abroad. First AT&T matches the expat and his or her family with psychologists trained in repatriation issues. The psychologists meet with the family before they go abroad. The psychologists discusses the challenges they will face abroad, assesses with them how well he or she think they will adapt to their new culture and stays in touch with them throughout their assignment. Other firms, like Dow, also provide written repatriation agreements. These guarantee in writing that the company won't keep the expat abroad for more than some period, such as three years, and that on return he or she will receive a mutually acceptable job.

Second AT&T makes sure that the employees always feels that he or she is still in the top with what's happening back at the home office. For example, AT&T assigns the expat a mentor and brings the expat back to the home office periodically for meetings and to socialise with his or her colleagues.

Third, once it's time for the expat employee and his or her family to return home, AT&T provides formal repatriation services. About six months before the overseas assignments ends, the psychologist and HR representatives meet with the expat and the family, to start preparing them for the return. For example the help plan the employer's next career move, help the person update his or her resume and begin putting the person in contact with supervisors back home. They work with the person's family on the logistics of the move back home. Then, about a month after returning home, the expat and family attend a welcome home seminar where they discuss matters like the stress of repatriation.

Did u know? Readjustment is the least understood and most poorly handled.

- 52% of 287 surveyed subsidiaries reported repatriate re-entry problems (Harzing, 1996).
- 44% turnover rate among 181 multinationals surveyed by GMAC-GRS 2002
- 50% leave the firm within one year
- 39% of surveyed firms did not know their turnover rates

Notes

Self Assessment

State whether the following statements are true or false:

9. Re-entry counselling sessions may also be referred to as debriefing.
10. Re-entry position and career path assistance is not the part of formal repatriation programme.
11. Repatriation programme helps in forming new social contacts.
12. Companies do not assign the expatriate a mentor.
13. An effective mentor is likely to alert the firm of the imminent return of the repatriate and thus affect the re-entry position.
14. Stress management, communication-related training are a part of repatriation programme.
15. Financial and tax assistance, including benefit and tax changes, loss of overseas allowance are also dealt in the repatriation program.

Task Take the example of GE Money, and design a repatriate programme for the organisations employees who are returning to India after a year's assignment.

Case Study

Re-entry Problems

John Handel had been back in his hometown for two months after an exciting three years working in the Japanese subsidiary of a U.S. multinational. As he sat in his empty office looking out at the city skyline, John reviewed his situation. Well, he had to admit, for him it had been on exciting and challenging time since his position there as finance manager had been a promotion. More importantly, it had brought him in control with different work approaches and procedures and he had interacted with American expatriates from headquarters as well as the local Japanese. Even though his previous position had been in the Asia Pacific Regional Office, it had not provided him with the same exposure as he enjoyed in Japan. John knew that he had gained valuable experience and self-confidence as a result.

It had not been all excitement though for the family. Anne, his wife, did not complain but John knew that she faced a difficult time because of his international assignment. One reason was because his two teenage children had to attend the International School located at a considerable distance from the Japanese subsidiary, which meant they only came 'home' on weekends. It made life particularly lonely for Anne, who was not working in Japan. She did admit that she often missed her work as a pathologist. Anne was having trouble back home finding employment — her previous department in a local medical school had been closed down due to reduced government funding.

Both children enjoyed the international environment at the school, and had adjusted better than John had hoped. Coming back to Australia though was proving to be traumatic. His elder son had not been accepted into his chosen university course due to

Contd...

Notes

non-recognition of the accreditation of the International School—or at least that was what Peter claimed. His younger son, John knew. How was he going to explain that the family had made sacrifices to further his career that was now going nowhere? His repatriated position back to the Regional Office was badly timed, to say the least. Headquarters in the state had decided to reorganise the entire global operation and, as a result, the Regional Office was to be upgraded to a Regional Headquarters, and relocated in Japan. John knew that it made sound business sense–most of the Asian-Pacific activity was centred on the Japanese facility and its South-East Asian and Chinese markets.

To retain its regional headquarters in Australia on the grounds of sentiment was unthinkable in such a highly competitive industry. "But where does that leave me? All the work is being transferred northwards. My position will now be filled by someone from either headquarters or, more probably, from Japan. My boss made that quite clear. I could not have asked the family to move back anyway," thought John. The situation was compounded by the news today that several of his colleagues in the regional office had been made redundant. "My acceptance of the international assignment has been career suicide—and not just for me," John thought. "I will have to see if there are positions available elsewhere if I am going to be able to face Anne and the boys tonight. Surely another company will value my international experience."

Questions

1. Why did John felt that he gained valuable experience in the Japanese Subsidiary of US MNC?
2. Why did John's felt that his wife faced difficult times during his foreign assignment?
3. What type of problems did John's children face after coming 'home'?
4. John thought that "my acceptance of the international assignment has been career suicide" – why?

Source: P. L. Rao, International Human Resource Management. First Edition. Excel Books. New Delhi.

6.4 Summary

- Expatriation and repatriation are interrelated.
- After the completion of the international assignment, company brings the expatriates back to the home-country.
- Repartition process has four identified phases.
- The job-related and social factors make the re-entry process more complex.
- MNCs should be responsible enough to manage the repatriation process.
- HR should design the proper repatriation programme for the expatriates to avoid complexity after re-entry.

6.5 Keywords

Knowledge Transfer: It is the cross-fertilisation of the ideas and practices by expatriates in one country with the employees in other country.

Motivation: It is the activation or energisation of goal-oriented behaviour.

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Physical Relocation: It refers to removing personal effects, breaking ties with colleagues and friends, and travelling to the next posting.

Preparation: It is the process of developing the plans for the future and gathering the information about the new positions.

Readjustment: It is coping with reverse culture shock and career demands.

Re-entry Shock: Returnees often are surprised to experience a re-entry cycle similar in form, but often more intense, to the one they encountered during their experience abroad.

Repatriation: It is the process of coming back of the expatriate after the completion of the international assignments.

Self-efficacy: It is the degree to which an individual believes that he can execute a set of behaviours.

Transition: It means settling into temporary accommodation where necessary, making arrangements for housing and schooling.

6.6 Review Questions

1. Imagine yourself as the expatriate manager who is about to re-enter the home country in one month. Explain the factors that will have a detrimental effect on your career after coming to home country.
2. Elucidate the role of job related factors and social factors in the re-entry process of expatriates.
3. "A well-designed repatriation process is important in achieving maximum benefit of international assignments." Comment.
4. "It seems important to understand why re-entry is a problem". Justify this statement.
5. Being the HR of a company, analyse the important aspects that should be included in designing the repatriation programme.
6. "The aims of cross-fertilisation of ideas and best practices given to justify cross-border movement of staff require the right environment to facilitate sharing of information and knowledge." Do you agree? Justify.
7. Justify the statement "The way in which the multinational handles repatriation has an impact on staff availability for future needs." Give examples.
8. Critically analyse the factors that forces the expatriate to leave the MNCs on repatriation.
9. You are the HR manager of IT Company. Design a repatriation programme for your organisation's expatriates who will be coming to their home-country soon.
10. Analyse the challenges in the new role which the expatriate has to face on re-entry.
11. What do you think should be the role of the MNCs in managing the repatriation process?
12. "For an expatriate to stay with the organisation on re-entry, it is important for him to adjust to the new work environment". Do you agree? Justify.

Answers: Self Assessment

1. Repatriation
2. Development
3. Interrelated
4. Readjustment

Notes

5. Adjustment
6. Staff ability
7. Strategies
8. Expatriates
9. True
10. False
11. True
12. False
13. True
14. True
15. True

6.7 Further Readings

Books

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Unit 7: Training and Development

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Objectives

After studying this unit, you will be able to:

- Describe the role of expatriate training
- Discuss the significance of pre-departure training
- Identify the need of developing staff through international assignment
- Explain the techniques employed to develop the staff

Introduction

Training refers to the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies. It forms the core of apprenticeships and provides the backbone of content at institutes of

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technology (also known as technical colleges or polytechnics). In addition to the basic training required for a trade, occupation or profession, observers of the labour-market recognise the need to continue training beyond initial qualifications: to maintain, upgrade and update skills throughout working life. People within many professions and occupations may refer to this sort of training as professional development.

7.1 Role of Expatriate Training

Today, more and more companies are spending substantial amounts of money on training and development of their employees to attain long-term organisational goals. Training programmes are designed and delivered after extensive research and preparation so as to deliver acceptable returns on investment, and to secure sustainable competitive advantage. The management's philosophy of a company, whether ethnocentric, polycentric or regiocentric influences the type of training.

Example:

1. Ethnocentric companies will provide all training at the headquarters and these will be designed and delivered by home national's polycentric.
2. Polycentric companies will rely on local managers to assume responsibilities for seeing that the training function is carried out wherever appropriate.
3. Geocentric companies organise training courses in different parts of the world, where a particular function is being best carried out.

Training has specific goals of improving one's capability, capacity and performance. Training aims to improve current work skills and behaviour, whereas development aims to increase abilities in relation to some future position or job – usually managerial. Training is the process of altering employee behaviour, attitudes and knowledge in a way that increases the probability of individual and organisational goal attainment. It aims to improve in relation to some future position or job, usually managerial. When expatriates are unfamiliar with the customs, cultures and work habits of the local people, they often make critical mistakes which can be avoided by providing them with proper training.

Example: **Cultural Ignorance is Bad Business**

An American company eager to do business in Saudi Arabia sent over a sales manager to 'get something going'. The salesman began calling contacts soon after his arrival. After many disappointing appointments, the salesman ran into an old friend, who gave him an introduction to some basic rules of Saudi etiquette and how to do business with the Arabs. The salesman learned that he had repeatedly insulted his contacts by his impatience, refusal of coffee, 'business first' attitude and aggressive selling. Even incidental acts such as handling people or papers with his left hand and exposing the side of his shoe while sitting on the floor were improper Saudi customs.

The cost of expatriate failure is very high. Therefore, MNCs take great pains to select the right persons and provide them with appropriate training before their departure as well as on arrival in a particular country. This cross-cultural and job-related training is also necessary because multinationals have to deal with clients and suppliers from different countries and conduct negotiations to set up joint ventures and strategies alliances and manage subsidiaries abroad. Therefore, they invest heavily on the training of all employees, particularly on expatriates.

Proper training can enhance group decision-making skills, team work and leadership effectiveness. Training and development is a subset of Organisational Development (OD), culture

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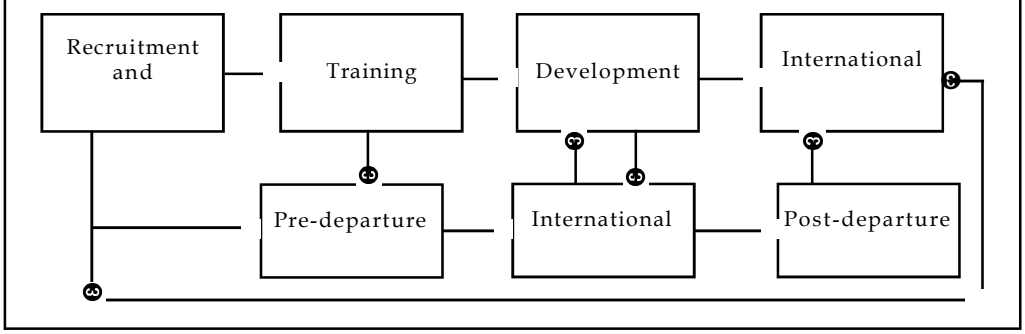
change and knowledge management. In order to compete successfully in a global market, more firms are focusing on the role of human resources as a critical part of their core competence and a source of competitive advantage. The importance of training and developing staff has resulted in establishing the 'universities', or 'schools' owned by MNCs themselves. Motorola, McDonald's Hamburger, and Disney universities are good examples of these in-house training centres.

Figure 7.1: Training and Development



Source: Pick from Figure 8.1, page 97, book Global HRM- MGTD627- Semester 4- LPU

The role of expatriate training can be summarised as:

- The focus of training is on creating cultural awareness.
- Effective cultural training assists individuals to adjust more rapidly to the new culture.
- It helps people to cope with unexpected events in a new culture.
- Previously MNCs placed less priority on providing pre-departure training for the spouse and family. But as it has been established that they equally need the training and it is being provided to them.

Self Assessment

Fill in the blanks:

1. Training to maintain, upgrade and update skills throughout working life is called as professional ……..
2. Training programmes are designed and delivered after extensive research and preparation so as to deliver acceptable …….. on investment.
3. The management's philosophy of a company, whether …….., polycentric or regiocentric influences the type of training.
4. The cost of expatriate failure is very …….
5. Proper training can enhance group decision-making skills ……. and leadership effectiveness.
6. The importance of training and developing staff has resulted in establishing the 'universities', or '…….' owned by MNCs themselves.

7.2 Pre-departure Training Programmes

Most expatriates are selected from within the multinational's existing operations, while some expatriates may be hired externally. Once an employee has been selected for an expatriate

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position, pre-departure training is considered to be the next critical step. This is an important attempt to ensure some cultural familiarity, especially if the expatriate's host country is considered culturally tough. Effective cultural training enables individuals to adjust more rapidly to the new culture.

A large number of U.S. multinationals have been reluctant to provide even a basic level of pre-departure training. U.S. multinationals tended to use training programmes for expatriates less frequently than European and Japanese firms.

A Price Waterhouse survey of European firms (including subsidiaries of non-European multinationals) revealed that cultural awareness training remains the most common form of pre-departure training, and that it is still offered on a voluntary basis rather than as a mandatory requirement.

Caselet

High Failure Rates

Expatriate managers, especially U.S. managers working in foreign countries, experience very high failure rates. Black and Gregersen (1999) report the following alarming findings:

1. Nearly one-third of U.S. managers sent abroad do not perform up to the expectations of their superiors.
2. Up to 20 percent of all U.S. managers sent abroad return early because of job dissatisfaction or difficulties in adjusting to a foreign country.
3. One-fourth of U.S. managers completing a foreign assignment left their company within one year after repatriation (often joining a competitor).

Perhaps, what is even more disturbing than Black and Gregersen's findings is the fact that we have known about these appalling failure rates for many years. In January of 1990, a Training & Development Journal article stated, "Up to 40 percent of U.S. expatriate managers fail in their overseas assignments" (Hogan and Goodson, 1990).

In that same article, Hogan and Goodson described how the Japanese companies had achieved a dramatically better success rate with their expatriate managers. They discussed one survey that stated "86 percent of multinational corporations in Japan had failure rates below 10 percent for their expatriates." Hogan and Goodson (1990) described the typical Japanese firm's expatriate support program as follows:

1. One year before managers depart, they devote company time to studying the culture and language of the destination country.
2. In the foreign country, the expatriate managers work with mentors who are responsible directly to the head office for assisting the managers with cultural problems that arise.
3. The first-year performance appraisal form clearly indicates that the expatriate's primary job during year one is to learn about and adjust to the host country.

Question

How can the failure rate of US expatriates be converted to success rate? Suggest.

Source: http://www.drbeitler.com/freestuff/articles/Expatriate-Training.pdf

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According to researchers (Harrison, 1994; Harris and Moran, 1991) training for expatriate managers must include following phases:

Self-Awareness: The self-awareness phase should be designed to provide the trainees with insight into their receptiveness and propensity for successful cross-cultural assignments. There are several psychological instruments available for managers and their family members, including the Cross-Cultural Adaptability Inventory (Kelley & Meyers, 1992) and the Intercultural Sensitivity Inventory (Bhawuk & Brislin, 1992). After completing several psychological instruments, it may become clear to the manager (or to his/her supervisor) that overseas assignment may not be appropriate. Jordan and Cartwright (1998) believe successful expatriate managers have the following attributes:

1. Emotional stability
2. Self-confidence Intellectual capacity
3. Openness to new experiences
4. Relational ability
5. Linguistic skill
6. Cultural sensitivity
7. Ability to handle stress

General Awareness of Cultural Differences: The general awareness of cultural differences phase of training is now supported by an impressive body of literature. Kluckhohn and Strodtbeck (1961), Hofstede (1980, 1993), and Trompenaars (1998) provide insight into how cultures differ on various dimensions. Kluckhohn and Strodtbeck (1961) describe six different cultural dimensions:

1. How people view humanity (good, evil, mixed)
2. How people see nature (domination, harmony, subjugation)
3. How people approach interpersonal relationships (individualistic, group, hierarchical)
4. How people view activity and achievement (being, controlling, doing)
5. How people view time (past, present, future)
6. How people view space (private, public, mixed)

Bennett (1986) believes by educating individuals to recognise their own values, they can better identify contrasts with other cultures and then apply these insights gained to improving cross-cultural interactions. Harrison (1994) adds, "To appreciate the differences in other cultures, trainees must understand their own culture."

Specific Knowledge Acquisition: The specific knowledge acquisition phase includes area studies, language studies, and host attitude awareness. Area studies, covering history, political system, economy, demographics, and climate are assumed to increase empathy, which will modify behaviour in cross-cultural interactions (Tung, 1981). Researchers (Copeland & Griggs, 1985; Harris & Moran, 1991) have found knowledge of the host country's language to be essential. Interestingly, an individual's level of confidence and willingness to use the host language is a greater influence on success than his or her actual level of fluency (Mendenhall & Oddou, 1985). Therefore, building the trainee's confidence and willingness is critical. In this phase, it is important for the trainee to become aware of the attitudes he or she will face in the host country. Work-related attitudes such as productivity, dependability, pace, frequency of breaks, meeting interruptions, and deadlines vary greatly from culture to culture. Trainees must also be alerted to possible negative attitudes toward nationality, race, or gender.

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Specific Skills Training: The specific skills training phase emphasises the application and practice of the skills necessary to succeed in the foreign culture. In this phase, "trainees analyse the problem situation, diagnose the underlying cultural issues, and respond accordingly" (Harrison, 1994). Case studies, simulations, and behaviour modelling allow for the application and practice of previously acquired knowledge. An effective skills training method is the simulated cocktail party (Earley, 1987). The interactions in this simulation require the use of greetings and introductions, etiquette, and appropriate topics for conversation. Mendenhall and Oddou (1998) believe this type of simulation forces the trainees to deal with emotions resulting from cross-cultural misunderstandings. Harrison (1992) describes the use of behaviour modelling as an effective cross-cultural training tool. Managers watch live or videotaped models demonstrating effective behaviours; then the managers rehearse the demonstrated behaviours. Trainers should be available to provide feedback.

The components of cultural awareness programmes vary according to country of assignment, duration, purpose of the transfer, and the provider of such programmes. Various cultural awareness programmes has been designed to provide expatriate with the effective training before he departs for foreign assignments.

A well-designed cultural awareness training programme will seek to foster an appreciation of the host-country's culture so that expatriates can behave accordingly or develop appropriate coping patterns. Without an understanding of the host-country culture in such a situation, the expatriate is likely to face many difficulties during the international assignment.

Example: In the Middle East, emphasis is placed on personal relationships, trust and respect in business dealings coupled with an overriding emphasis on religion that permeates almost every aspect of life.

There are five categories of pre-departure training, based on different learning processes, type of job, country of assignment, and the time available:

1. Area studies programmes that include environmental briefing and cultural orientation giving information about climate, geography, houses, etc.
2. Cultural assimilators using the programmed learning approaches, designed to provide the participants with the inter-cultural encounters.
3. Language training aimed at increasing communication effectiveness.
4. Sensitivity training designed to develop attitudinal flexibility.
5. Field experiences arranged to make the expatriate familiarise with the challenges of the assignment.

7.2.1 Area Studies Programmes

The degree of interaction required in the host culture and the similarity between the individual's native culture and the new culture determines the variations in the expatriate training along with the duration of the training.

1. If the expected interaction between the individual and members of the host culture is low and the degree of dissimilarity between the home and host cultures is also low, then the training should focus on task- and job-related issues rather than culture-related issues. The level of rigour necessary for effective training should be relatively low. The duration of training could be one to two weeks including focus on area briefing and sensitivity training.
2. If there is going to be high level of expected interaction with host nationals and large dissimilarities exist between the cultures, then training should focus on cross-cultural

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skill development as well as on the new task. The level of rigour should be moderate to high. The duration of training can extend from two weeks to two months including language training, use of training assimilators and field experience in addition to area briefing and sensitivity training.

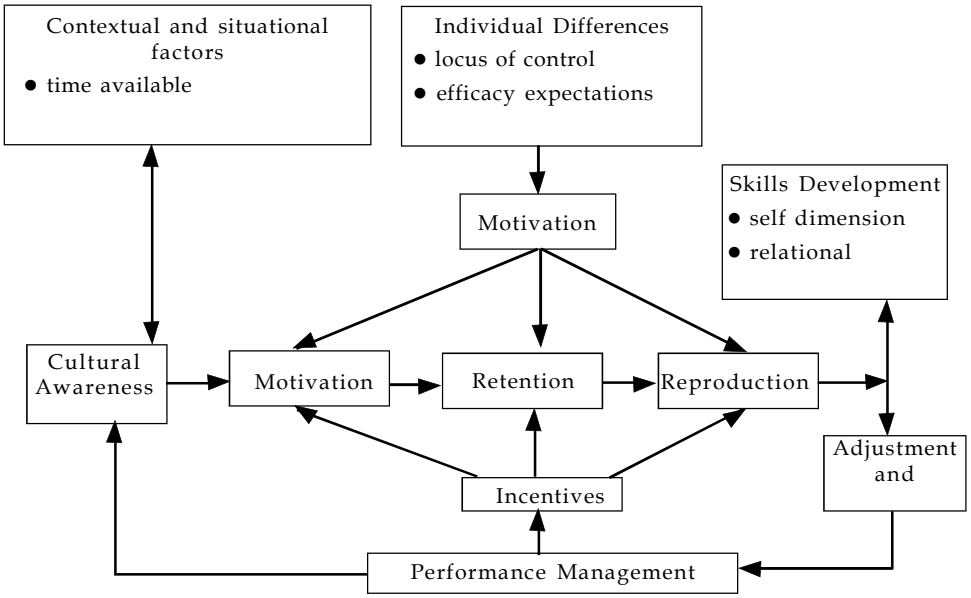
Notes Mendenhall, Dunbar and Oddou proposed three dimensions – training methods, low, medium, and the high levels of training rigour, and duration of the training relative to degree of interaction and culture novelty – as useful guidelines for determining an appropriate programme.

For example, If the expected level of interaction is low and the degree of similarity between the individual's native culture and the host culture is high, the length of the training should probably be less than a week. Methods such as area or cultural briefings via lectures, movies, or books would provide the appropriate level of training rigour.

If the individual is going overseas for a period of two to twelve months and is expected to have some interaction with members of the host culture, the level of training rigour should be higher and its length longer (one to four weeks). Also, training methods such as culture assimilators and role plays may be appropriate.

If the individual is going to a fairly novel and different host culture and the expected degree of interaction is high, the level of cross-cultural training rigour should be high and training should last as long as two months. Also, sensitivity training, field experiences, and inter-cultural experiential workshops may be appropriate training methods in this situation.

Figure 7.2: Cultural Awareness Training and Assignment Performance



Source: Dowling *et al.*, International HRM (2001) p. 160

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The three aspects of social learning theory – attention, retention, and reproduction also influence the individual differences in expectations and motivation and incentives to apply learned behaviours in the foreign location. It recognises that effective training is only the first step and that the expatriate's willingness and ability to act on that training in the new environment is crucial to effective performance. It stresses the importance of attention paid by the potential expatriate to the behaviours and probable outcomes of a cultural awareness training programme, the individual's ability and willingness to retain learned behaviours, and their reproduction as appropriate in the host location.

7.2.2 Preliminary Visits

The technique of sending the employee on a preliminary trip to the host country helps in orienting international employees to international assignments. A well-planned overseas trip for the candidate provides a preview that allows them to assess their suitability for and interest in the assignment. Such a trip serves to introduce expatriate candidates to the business context in the host location and helps encourage more informed pre-departure preparation.

Most firms that utilise preliminary visits weigh their cost against premature recall and underperformance risks. A potential problem exists in that the aim of the preliminary visit is often twofold–part selection decision and part pre-departure training.

Combined with cultural awareness training, the preliminary visit is a useful component of a pre-departure programme. Exposure to the expatriate community, if one exists in the proposed host location, can be a positive outcome of the preliminary visit.

7.2.3 Language Training

Language training is a desirable component of a pre-departure programme. There are three interrelated aspects related to language ability:

1. ***Role of English as the Language of World Business:*** English is the accepted language of world business, though the form of English is more "international English" than that spoken by native speakers of English. Multinationals from English-speaking countries such as the United States, the United Kingdom, and Australia often use this fact as a reason for not considering language ability in the selection process, and for not stressing language training as part of pre-departure programmes.
2. ***Host-country Language Skills and Adjustment:*** The ability to speak a foreign language can improve the expatriate's effectiveness and negotiating ability. It can improve manager's access to information regarding the host-country's economy, government, and market. The degree of fluency required depends on the level and nature of the position that the expatriate holds in the foreign operation, the amount of interaction with external stakeholders such as government officials, clients, trade officials, as well as with host-country nationals. Language skills are important for task performance and cultural adjustment.
3. ***Knowledge of the Corporate Language:*** For multinationals from non-English-speaking countries, the standardisation of information and reporting systems tends to be handled in the language of the parent's country of origin until geographical dispersal makes that problematical. The multinational adopts a common company language to facilitate reporting standardisation and other control mechanisms, particularly normative control.

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Language skills become an important aspect. PCNs can find themselves performing as communication conduits between subsidiary and headquarters, due to their ability to speak the corporate language. It also can give added power to their position in the subsidiary as PCNs often have access to information that those not fluent in the corporate language are denied.

7.2.4 Practical Assistance

Another component of a pre-departure training programme is providing information that assists in relocation. Practical assistance makes an important contribution toward the adaptation of the expatriate to their new environment. Being left to fend for themselves may result in a negative response toward the host-country's culture, and contribute to a perceived violation of the psychological contract.

MNCs take advantage of relocation specialists to provide the practical assistance. The local orientation and language programmes are normally organised by the personnel staff in the host country but the corporate HRM staff must liaise with the sending line manager as well as the HR department in the foreign location to ensure that practical assistance is provided.

7.2.5 Job-related Factors

There are differences in the way people approach tasks and problems and that this can have an impact on the learning process. The ability to transfer knowledge and skills in a culturally-sensitive manner should be an integral part of pre-departure training programmes. An international assignment can be a promotion to a managerial role for which the preparation is effectively the international assignment.

In some firms, pre-departure training may not be provided to TCNs–to the extent that is available to PCNs. This could create perceptions of inequitable treatment in situations where PCNs and TCNs work in the same foreign location. As an Australian working in the Japanese subsidiary of a U.S. multinational remarked, "We were third-class nationals in Japan. The Americans received cultural training about Japan before they left the United States."

Did u know? In a study involving survey responses of 72 human resource managers at multinational corporations (MNCs), 35 percent of the HR managers said cultural adaptability was the most important success factor in a foreign assignment (Dallas, 1995).

7.2.6 Cultural Assimilators

It is a programmed learning technique that is designed to expose members of one culture to some of the basic concepts, attitudes, role perceptions, customs and values of another culture. These assimilators are developed for each pair of cultures: one culture where the candidate is currently working and the other culture is where he is proposed to be posted.

These assimilators require the trainee to read a short episode of a cultural encounter and choose an interpretation of what has happened and why. If the trainee's choice is correct, he or she goes to the next episode. If the response is incorrect, the trainee is asked to read the episode again and choose another response.

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Caselet

Example of Cultural Assimilator

Situation: Sharon, a schoolteacher in Athens, was amazed at the questions that were asked of her by Greeks whom she considered to be only casual acquaintances. When she entered or left her apartment, people would ask her where she was going or where she had been. If she stopped to talk, she was asked questions like, "How much do you make a month?' or 'Where did you get that dress you are wearing?' She thought that the Greeks were very rude.

Question

Why did the Greeks ask Sharon such questions?

Options

1. The casual acquaintances were acting like friends do in Greece, although Sharon did not realise it.
2. The Greeks asked Sharon those questions in order to determine whether she belonged to the Greek Orthodox Church.
3. The Greeks were unhappy about the way she lived and they were trying to get Sharon to change her habits.
4. In Greece, such questions are perfectly proper when asked of women, but improper when asked of men.

Solution: The casual acquaintances were acting like friends do in Greece, although Sharon did not realise it. It is not improper for in-group members to ask these questions of one another in Greece. Its their beliefs and attitude due to cultural differences in Greece and America. Furthermore, these questions reflect the fact that friendships tend to be more intimate in Greece than in America. As a result, friends are generally free to ask questions, which would seem too personal in America. This is basically the cultural diversity and the behavioural changes that have made Sharon feel very rude. But for Greeks, this is a gesture for more friendliness and openness. Americans being very reserve does not share such details with each other but in Greece, people tend to become friends and become open, so they can share such issues with their friends.

If you have chosen any other option, then you will be explained why that option or interpretation is not right.

Notes: Cultural appropriation is the adoption of some specific elements of one culture by a different cultural group. It includes the introduction of forms of dress or personal adornment, music and art, religion, language or behaviour. These elements are typically imported into the existing culture and lack the subtleties of their original cultural context. Because of this, cultural appropriation is sometimes viewed negatively, and has been called "cultural theft."

Source: http://www.studymode.com/essays/Expatriate-Training-And-Support-833959.html

7.2.7 Mendenhall and Oddou's Model

Mendenhall and Oddou (1986) enrich Tung's contingency framework by presenting one which groups the cross cultural training (CCT) methods into high, medium and low levels of rigor and suggests the desired duration of CCT.

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According to Mendenhall and Oddou's (1986) paradigm, where the duration of sojourn in the host culture is long (1-3 years), the degree of interaction and integration with the foreign culture is deemed to be high. This necessitates a high level of training rigor. The corresponding training approach, the "impression approach", employs methods like assessment centres, field experiences, simulations, sensitivity training and extensive language training. Information giving training methods like area and cultural briefings, affective training like role-playing are also included to provide the comprehensiveness the nature of the overseas assignment warrants. Hence, the length of training has to be long (1-2 months).

This framework has been criticised for not explaining how the level of rigor of a specific CCT method is determined (Black and Mendenhall, 1991). One can also caution that there is no simple one-to-one correlation between the duration of sojourn and the required degree of interaction and integration with the host culture. Whereas a three-day trip to the Philippines for the purpose of conducting a branch audit necessitates minimal cultural integration, an assignment of the same duration to the Philippines for discussing and concluding the finer details of a joint venture warrants full cross-cultural readiness and competence.

7.2.8 Black and Mendenhall's Model for CCT Methods Selection

In an attempt to improve on Tung's (1981) and Mendenhall and Oddou's (1986) frameworks, Black and Mendenhall (1989) proposes a CCT methods selection framework based on the social learning theory (SLT) (Bandura, 1977).

Essence of the SLT

The social learning theory (Bandura, 1977) states that learning can take place in two ways: One, by positive reinforcement and second, by duplicating the learned behaviour acquired symbolically or by associating the behaviours with the outcomes. The four core elements of the theory are attention, retention, reproduction and incentives.

The trainees are more likely to pay more attention if the training model used is popular and easily available. If the training approach is the type that the trainees are used to, attention level will also be higher. In addition, where reward is expected, attention level can reach new heights. Retention is measured by the extent the trainees commit the principles, skills and insight acquired to memory. This can be reinforced by frequently modelling and rehearsing the desired behaviours.

Reproduction refers to translating the learned and retained behaviours into practice. The extent to which this is done is greatly influenced by two factors: (1) the motivational effects of incentives, specifically, how far the trainees believe that displaying the desired behaviours will lead to the desired outcomes; (2) to what extent the trainees believe they can perform the desired behaviours.

The SLT attempts to capture the essence of several important theories. It integrates the cognitive and behavioural theories. It explains the notion of motivation within the concept of self-efficacy as well. The issue of how the trainee acquires and display the desired behaviours taught to him is also addressed. However, it is noted that "the importance of certain variables of SLT is different in cross-cultural training situations (Black and Mendenhall, 1990). Also, attention, retention and reproduction can be slowed by situational factors such as high culture novelty, high degree of cultural interaction and integration, high job novelty (Black and Mendenhall 1991), and the trainees' personal and familial characteristics (Tung 1981).

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Using SLT to Account for CCT Rigor and Rigor of CCT Methods

The SLT defines rigor as the degree of cognitive involvement required. The relative degree of rigor of specific CCT methods can also be captured in the symbolic modelling process and the participative modelling process within the SLT (Black and Mendenhall 1991).

Symbolic processing can be divided into two forms. The first form refers to hearing about the behaviours and translating them into images in the mind, Observation and rehearsal of the behaviours then take place in the mind. CCT methods that utilise this form of modelling process include verbal factual briefings, lectures and books. The other form differs in that the trainees actually see the modelled behaviour before committing it into images. This form of modelling process requires greater cognitive involvement and therefore the CCT methods that utilise this process, for example films, role modelling and demonstrations, are more rigorous than the CCT methods that appeal only to the sense of hearing. The effects of symbolic modelling can be enhanced by utilising cognitive (or mental) rehearsal of the training content, which Black and Mendenhall (1991) classify as factual in nature.

Participative modelling requires greater cognitive involvement than symbolic modelling because apart from observing, the trainees also partake in modelling the behaviour. This participation comes in two forms: "verbal" participation and "physical" participation. "Verbal" participation refers to having the trainees verbalise their responses during training sessions which are analytical in nature, such as case studies and culture assimilators. "Physical" participation refers to providing actual physical response during training sessions that are experiential in nature, such as role plays, interactive language training, field trips and interactive simulations. Physical participation is more cognitively engaging than verbal participation. The training rigor of physical participation is correspondingly higher too. The effects of participative modelling can be reinforced by cognitive as well as behavioural (or physical) rehearsal.

Black and Mendenhall (1989) proposes that the relative rigor of a specific CCT method can be approximated by examining the modelling and rehearsal processes involved, as well as the duration and frequency of a training program. The longer the training, and the more frequently it is held, the more rigorous it is.

The SLT literature and the CCT literature lend evidence that increasing the rigor of the training amounts to increasing the trainees' effectiveness in producing the desired cross-cultural behaviours (Bandura, 1977; lUng, 1981; Black and Mendenhall, 1990). Black and Mendenhall (1989) explain that this is because rigor, expressed in the form of cognitive involvement, raises the level of attention and retention, hence improving reproduction proficiency.

Important Situational Factors

Like Tung (1981) and Mendenhall and Oddou (1986), Black and Mendenhall (1991) identify culture novelty, degree of cross-cultural interaction and job novelty as important factors influencing the choice of CCT methods. Yet they move one step ahead by analysing the components of each factor.

Net Culture Novelty = Objective Culture Novelty - (the Quality + Quantity of an Individual's Previous Experience)

Hofstede (1980) offers a method to estimate the culture novelty of a foreign culture relative to the American culture. He makes use of four scales: power distance, uncertainty avoidance, individualism, and masculinity. The absolute difference in scores on each of the four scales between the employees of the target country and the American employees are determined and summed. A large number indicates high culture novelty. Culture novelty can also be estimated by assessing whether there is any difference in the functional languages used in the home and

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the host countries, and whether there is any need to learn the languages to facilitate cross-cultural success (Black and Mendenhall 1991).

The "quantity" of an individual's previous experience involve not only all his past experience with the host culture, but also all his previous interactions with a culture similar to the host's. The "quality" of the individual's previous experience refers to the intensity of his cultural interaction with the host culture or a similar culture. Intensity is measured by the frequency and degree of involvement of the interaction.

Degree of Interaction = (Frequency of Interaction with Local Nationals) x (Importance of Interactions) x (Nature of Interactions)

The more frequent the trainee is expected to interact with the local nationals, the higher the intensity of interaction. 'Where the interactions are numerous and significant, interaction intensity is high. The nature of the interactions plays a part in determining its intensity too. In this connection, the literature on communication has supplied reasons to believe that novel, two-way, unique, face-to-face, long-term, and informal cross-cultural interactions would be more trying than the opposite (Jablin, Putnam, Roberts, Porter, 1987).

Job novelty, the third important situational factor, is task-related. The more novel the new assignment is, the greater the assistance needed to help produce effective behaviour. This means that more rigorous training is required. Stewart (1982) suggests that to estimate the degree of job novelty relative to a specific trainee, three job characteristics should be considered: (1) extent of similarity in job demands between previous jobs and the new; (2) extent of similarity in job constraints between previous jobs and the new; (3) extent of similarity in job autonomy and authority between previous jobs and the new.

In view of the fact that maladjusted spouses and children can directly influence the expatriates' success or failure in the host country, the novelty of the foreign culture and the degree of expected interaction with the culture ought to be assessed in much the same way as is done for the expatriates (Black and Stephens, 1989).

Black and Mendenhall (1991) integrate the notions of culture novelty, interaction, job novelty and CCT rigor by reasoning that high culture novelty, interaction and job novelty make the process of attention, retention and reproduction slower. It is necessary to add rigor to the training programs because it can capture attention better, deepen retention and facilitate reproduction proficiency. Correspondingly rigorous CCT methods are therefore selected. To add, it has been shown that job novelty is relatively easier to adjust to than culture novelty and a high degree of interaction with the host culture (Black and Stephens, 1989). And since it is possible to quantify the respective dimensions, CCT programs can be customised for each trainee.

This means that a trainee who faces a highly novel job will receive relatively more training that will increase his technical competence. Likewise, where the degree of interaction is high, learning in this area heeds to be enhanced by emphasising on training topics such as interpersonal skills and perception. Where the degree of culture novelty is high, topics, such as country studies need emphasis. Thus, the trainee receives more assistance to more effectively acquire and emit the kind of behaviour that will contribute to impressive cross-cultural performance (Black and Mendenhall, 1991).

Black and Mendenhall (1991) do not distinguish between cognitive and affective engagement. However, it is noted that affectively engaging training methods (for example, sensitivity training) are surely more rigorous than the cognitively engaging ones (for example, area studies). In comparison with cognitive, information-gathering programs, affective and immersion-oriented programs require more personal involvement of participants, especially when the need for

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degree of integration with the host-culture increases (Brislin, 1979; Mendenhall, Dunbar, and Oddou, 1987).

In sum, the bulk of the review is focused on the work of Black and Mendenhall (1991), the reason being their work is the most refined to date, backed by the social learning theory. The common idea shared by all the three frameworks reviewed is that there must be a fit between the CCT needs of the trainees and the rigor of the CCT program adopted, at all phases of CCT.

Let us discuss one more model suggested for expatriate manager assessment and development.

7.2.9 The Beitler and Frady Model

Beitler and Frady's (2002) model of Expatriate Manager Assessment and Development builds upon aspects of Harrison's (1994) and Jordan and Cartwright's (1998) work. Beitler and Frady's (2002) model includes the following steps:

Assessment: Any management development program should begin with assessment. The assessment phase should be especially comprehensive for expatriates because of the unique KSAs required for foreign assignment. The typical management assessment instruments are helpful, but they should be supplemented with instruments such as the Cross-Cultural Adaptability Instrument (CCAI) and the Self-Directed Learning Readiness Scale (SDLRS).

Individualised Learning Agreements: The learning agreement, as detailed in Beitler (2000, 1999), should include the following:

(a) What will be learned?

(b) How will it be learned?

(c) How will the learning be documented?

(d) How will the learning be evaluated?

Pre-Departure Training/Orientation: At a minimum, this should include general awareness of the culture and basic language skills. It is important to include spouses and dependents, as well as the expatriate managers, in this phase.

E-Support during Foreign Assignment: This step is critical in the Beitler and Frady (2002) model. Training and development for the expatriate manager only begins in the pre-departure phase. Ongoing support is necessary for success. The expatriate manager will need to acquire additional KSAs after arriving in the host country. In the pre-departure phase, managers can acquire knowledge (K) through classroom learning, skills (S) through daily mentoring, and proper attitudes (A) through face-to-face counselling sessions. During foreign assignment, classroom learning must become E-learning, daily mentoring must become E-mentoring, and face-to-face counselling must become E-counselling. The technology is now available to support E-learning, E-mentoring, and E-counselling (see Beitler & Frady, 2002). Today's global organisations must utilise that technology.

Periodic Re-assessment: This is very important for the success of the foreign assignment. The expatriate manager should receive as much feedback as possible. Guidance from a host country supervisor or sponsor would be ideal but is not always possible. At a minimum, peers and subordinates should be surveyed for input.

Learning Agreement Revisions: New learning agreements should immediately follow the periodic performance reviews. Plans for enhancing strengths and ameliorating weaknesses should be clearly written.

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On-going E-support: Ongoing support in the forms of E-learning, E-mentoring, and E-counselling is an investment that will yield substantial returns for the organisation. This support should be well planned and monitored for continuous improvement.

Who's Involved?: A comprehensive expatriate support system should include all four of the following:

1. Manager
2. Spouse
3. Dependents
4. Host-country sponsor

E-learning, E-mentoring, and E-counselling can be provided for all four stakeholders mentioned.

Expatriate training and support is critically important to the success of international organisations.

Notes **The Role of Technology**

Knowledge created through expatriate training and support should be captured in a "codified" knowledge management (KM) system. This technology provides for the capturing and dissemination of individual expatriate knowledge for the benefit of the organisation. Ongoing, new learning should be constantly fed into the KM system. Each part of the expatriate training and support system should be linked to the KM system.

7.2.10 Impact of Different Learning Styles on Training

It is important that the contents of the training programmes should be designed differently and they should match with the processes and learning environment according to national cultures. Also, if learning does occur, the new behaviours will not be utilised if they are not reinforced.

In a study investigating learning styles by giving a questionnaire to British, Indian, East African middle managers, two dimensions of learning styles were measured analysis and action. The analysis dimension measured the extent to which the learner adopts a theory building and test approach as opposed to using an initiative approach. The action dimension measured the extent to which the learner uses a trial and error approach as opposed to a contemplative or reflective approach. It is found that Indian managers scored higher in analysis, British managers in action and East African managers scored the lowest in both analysis and action.

The most common types of training is self-evaluation. Participants in such training are provided personal insights about their behaviours, whether their managerial style is intuitive, factual, analytical or normative.

1. A factual style manager looks at the available information and makes decisions based on the data.
2. An intuitive style manager is innovative and imaginative and can jump from one idea to another.
3. An analytical style manager is systematic and logical and carefully weighs alternatives to problems.
4. A normative style manager is idealistic of all four types of styles in varying degrees, but by learning their individual preferences, participants gain insights into their own approach to dealing with people.

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Notes **MNC Training**

Many MNC training programmes in the U.S. are shifting to the more intense competitive, test-oriented, and result-oriented educational system used so well by Japan. Japanese firms employ the most effective on-the-job training and developmental programmes in the modern business world. The Germans are following the Japanese lead and are developing outstanding on-the-job training programmes. MNC training programmes include public education, relative levels of secondary schooling, and on-the-job training, computer literacy, and worker motivation.

Example: The German power Tool Company has used apprentice training programmes to triple the productivity of its Virginia plant. A similar apprenticeship training programmes are paying big dividends for Potter and Brumfield, Inc., another German-owned plant in the United States.

Task You are HR manager of the company. Analyse the training program you will design for the employees of your company who will be leaving for USA in next 2 months to handle a business assignment.

7.2.11 International Training of HCNs

HCNs can be transferred into the parent country, into either its headquarters or home-subsidiary operations. There are various motives for HCN staff transfers:

1. It facilities specific firm-based training.

Example:

(a) The Pepsi-Cola International Management Institute is an umbrella system for the delivery of training programmes such as sales force management or production techniques for the manufacturing or Pepsi brands.

(b) Fiat, the Italian automobile manufacturer, uses staff transfers as part of its training programme, with HCN recruits spending time at corporate headquarters.

2. While technical and managerial training may be the primary goal, there is often a secondary, yet equally important, objective of building a sense of corporate identity.

Example: The Swedish telecommunications company, L. M. Ericsson has two levels of formal management programmes catering the top managers and middle managers. As part of its approach, the company established the Ericsson Management Institute. These types of corporate training centres serve as a useful venue for HCNs from various countries to meet and develop personal networks that facilitate informal communication and control.

3. Particular skills may be required in the subsidiary and the most cost effective way is to bring certain HCN staff into the parent operations.

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Example: When Ford Australia began manufacturing the Capri model – a sports car aimed at the U.S. market – Australian production and engineering employees spent time in Ford's U.S. factories to quickly gain the necessary knowledge required to meet U.S. safety regulations.

4. The presence of HCNs may assist in broadening the outlook of parent-company employees as HCNs have particular knowledge and skills that can be transferred into parent operations.

Cultural adjustment is inherent in international staff transfers, regardless of the direction of the transfer–that is, whether it is the PCN moving to a subsidiary, a HCN coming into parent operations, or transferring to another subsidiary. In order to design and implement HCN pre-departure training, local management, particularly those in the HR department, need to be conscious of the demands of an international assignment.

Self Assessment

State whether the following statements are true or false:

7. Most expatriates are selected from within the multinational's existing operations.
8. Once an employee has been selected for an expatriate position, personality development training is considered to be the next critical step.
9. The self-awareness is to provide the trainees with insight into their receptiveness and propensity for successful cross-cultural assignments.
10. The specific knowledge acquisition phase includes area studies, language studies and host attitude awareness.
11. It is not very significant for the trainee to become aware of the attitudes he or she will face in the host country.
12. Trainees must also be alerted to possible negative attitudes toward nationality, race, or gender.

7.3 Developing Staff for International Assignments

Foreign assignments are an important mechanism for developing international expertise – for both management and organisational development. Many multinationals are conscious that they need to provide international experience to several levels of managers and not just to a small cadre of PCNs.

Techniques employed to develop the staff through international assignments are:

1. One technique used to develop larger pools of employees with international experience is through short-term development assignment ranging from a few months to several years.

Example: The Swedish-Swiss conglomerate ABB, have carried on the practice of developing small cadres of international employees rather than internationalising everyone.

2. International job rotation is also a well-established technique for developing multinational teams and international operators. It is supported by PCN, TCN, and HCN attendance at common training and development programmes held either in the parent country, or regional centres, or both.

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Example: The Global Leadership Programme at the University of Michigan provides external training programmes for a period of five weeks. Teams of American, Japanese, and European executives learn global business skills through action learning. To build cross-cultural teams, the programme utilises seminars and lectures, adventure-based exercises, and field trips to investigate business opportunities in countries such as Brazil, China, and India. The overall objective of the Global Leadership Programme is to produce individuals with a global perspective.

3. ***Action learning approach:*** It is the approach which is applicable to both individual and organisational learning and is widely adopted in British and international companies. This approach is based on the assumption that learning is bound up with the process of management and everyone in the organisation should be engaged in learning. This presupposes the availability of information in the organisation sufficient to enable learning to take place throughout the organisation.

   Revans (1965) suggests that there are four forces bearing on management decision-making:

   (a) The need for economy of time and management effort;

   (b) The analytical approach available to the manager, whilst not forgetting intuition which is the first weapon of management;

   (c) The ability to understand and contain variability and risk by the use of statistical methods;

   (d) A greater understanding of human beings as a determinant of success in the enterprises.

4. ***Experiential learning approach:*** Kolb (1976) developed the concept of experiential learning as a process or cycle comprising four stages. It is:

   (a) Concrete experiences; followed by;

   (b) Observation and reflection; leading to;

   (c) Formation of abstract concepts and generalisations; leading to;

   (d) Testing of the implications of concepts for future action which then leads to new concrete experiences.

   He states this as the way learning happens as it is governed largely by the pursuit of goals that are appropriate to our own needs.

7.3.1 Transferability across Cultures

In the cross-cultural context Hughes-Weiner (1986) qualifies the learning process described by Kolb as follows:

1. ***Concrete experience:*** People from different cultures are likely to have different background and different experiences.

2. ***Reflective observation:*** As a result of different behaviour patterns, socialisation and institutional and work experiences, individuals from different cultures may make different assumptions about what they see and understand through their experiences.

3. ***Abstract conceptualising:*** Because people from different cultures have different cognitive frameworks, this may lead them to focus on irrelevant information or misinterpretations in a particular situation, thus drawing wrong conclusions and theories in a different cultural situation from their own.

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4. ***Active experimentation:*** Behaviour differences between cultures may lead to misinterpretations and misinterpretations of the meanings of such behaviour outside their own cultures, leading to confusion and frustration.

In order to overcome the problems of transposing the experiential model on to other cultures, Jackson (1995) proposes four learning modalities as follows:

1. ***Receptivity:*** Learners are predominantly receptive to practical stimuli or theoretical stimuli for learning depending on their cultural backgrounds and their experiences in national educational systems.
2. ***Perception:*** Learners are more intuitive about sorting and judging information, or are rational in a step-by-step approach in judging the quality of information that is the basis for making decisions.
3. ***Cognitive:*** Learners are more subjective in the way they make decisions and solve problems based on personal judgement, or base their decision-making more on logic and scientific approaches.
4. ***Control:*** Learners prefer to rely on their own initiative or on the direction of an instructor.

Task Your company has recently under gone an International joint venture with a Japanese firm and has decided to send 5 employees from India to Japan to handle the international assignment. Being the HR of the company, you are asked to outline a detail plan for the pre-departure training.

Case Study

Working with a Service Provider for Pre-departure Training

Gold Coast Institute of TAFE secured an Endeavour Mobility grant in 2009 for tourism, hospitality and events students to undertake a three week industry placement with Renaissance Hotel, Kuala Lumpur, Malaysia. In making the application the institute was aware that it would need to identify a partner to adequately prepare the students for their experience. Working with the Institute of Modern Languages (IML), at University of Queensland a pre-departure language and cultural program was designed.

The program ran over 12 weeks and involved a trainer from IML travelling to the Gold Coast campus to deliver 2 hour sessions with the 12 students and their accompanying teacher. The sessions included both language and cultural orientation programs. Given that the students were from different industries and did not necessarily study together this also gave them the opportunity to get to know one another and form as a group. Equally, for the teacher who taught some of the students she also got to know the individuals strengths and weaknesses and was able to plan and prepare accordingly.

The partnership with IML was very cost effective and enabled the students and staff access to a local "expert" in the market. Post event surveys from the students rated the pre departure program as highly effective. Whilst picking up key language skills in such a

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short period of time is difficult it was also important in supporting students to grasp the cultural shift that would be required to operate successfully in a 5 star hotel in the Malaysian capital.

Question

What was the motive of Gold Coast Institute in providing the pre-departure training to students?

Source:http://www.studyoverseas.gov.au/vetmobility/documents/8.2.1WorkingwithaServiceProviderforPre-departureTrainingCaseStudy.pdf

Self Assessment

Fill in the blanks:

13. A technique used to develop larger pools of employees with …….. experience is through short-term development assignment.
14. International …….. is also a well-established technique for developing multinational teams and international operators.
15. …….. learning approach is bound up with the process of management and everyone in the organisation should be engaged in learning.

7.4 Summary

- Training refers to the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies.
- Today, more and more companies are spending substantial amounts of money on training and development of their employees to attain long-term organisational goals.
- MNCs take great pains to select the right persons and provide them with appropriate training before their departure as well as on arrival in a particular country.
- Effective cultural training enables individuals to adjust more rapidly to the new culture.
- Expatriate manger has to work in a different cultural if he is handling the international assignment.
- Cross-cultural requirements and training has to be provided to the expatriates.
- A better understanding of the cultural diversity is needed to be understood by expatriate.
- Expatriate managers can match their attitude, managerial style with the host country culture, more effective they are in international assignments.
- Proper training has to be provided so as to reduce the cultural dissonance feeling among the expatriates.
- Foreign assignments are an important mechanism for developing international expertise –for both management and organisational development.

7.5 Keywords

Analytical Style Manager: He is systematic and logical and makes decision rationally.

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Cultural Assimilators: It is a programmed learning technique that is designed to expose members of one culture to some of the basic concepts, attitudes, role perceptions, customs and values of another culture.

Culture: It is an integrated pattern of human knowledge, belief, and behaviour that depends upon the capacity for symbolic thought and social learning.

Development: It is the framework for helping employees develops their personal and organisational skills, knowledge, and abilities.

Expatriate: An international manager who got a foreign posting, leaving his homeland to work and live in other country to handle an international assignment.

Factual Style Manager: He looks for the available information for making decision.

Preliminary Visits: The technique of sending the employee on a preliminary trip to the host country helps in orienting international employees to international assignments.

Training: It is the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies.

7.6 Review Questions

1. Critically analyse the need of training for the expatriates, whether PCN or TCN.
2. You are a corporate HR manager. Examine the factors to be taken into account for an effective pre-departure training programme.
3. Analyse the ways in which an organisation can impart the cross-cultural training to its employees who would be handling the international assignments.
4. Critically analyse the motives of the HR manager for HCN staff transfers to either headquarters or home subsidiary operations.
5. Being the head of the HR department, you are given the responsibility to develop the international staff and multinational teams for your organisation. Devise a detailed plan for the same.
6. Taking the example of McDonald's, analyse the training strategies the might have developed to handle their international business in India.
7. "Expatriate employee must adapt to and not feel isolated from the host country." Did you agree to the above statement? Give examples to justify the same.
8. "Training and development of employees is considered to be the essence for the international assignments." Justify this statement.
9. Many big banking and financial giants have established their call-centres in India despite the cultural diversity. Outline the reasons for the change in attitude of the corporate for the same.
10. "Expatriate fluent in parent company language and the language of the host subsidiary can perform a gate-keeping role." Do you agree? Justify your answer.
11. Examine the factors that have led the MNCs to focus their attention for the expatriates training before sending them for the international assignments.
12. Considering the example of the Indian firm, analyse the trainings programmes started by them for their employees handling international assignments.

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13. "Functional ability alone does not determine success. Some form of cultural preparation is necessary." Justify the statement giving the relevant examples.

14. Do you think cultural awareness programmes are effective enough to train the personnel who will be handling the international assignments? Justify giving examples.

Answers: Self Assessment

1.	Development	2.	Returns
3.	Ethnocentric	4.	High
5.	Team work	6.	Schools
7.	True	8.	False
9.	True	10.	True
11.	False	12.	True
13.	International	14.	Job rotation
15.	Action		

7.7 Further Readings

Books

Rao, P. L. *International Human Resource Management.* First Edition. Excel Books. New Delhi.

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Notes

Unit 8: International Compensation

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Objectives

After studying this unit, you will be able to:

- Describe approaches to International compensation
- Identify the components of International compensation
- Design the International compensation program
- Explain executive compensation

Introduction

Compensation tends to vary widely around the business world due to the economic differences, differences in development levels, political factors, traditions and culture. A comparison between U.S. and Chinese worker compensation showed that average wage of the Chinese worker is only about 3 to 5% of that of U.S. worker, Chinese are not required to pay income tax, insurance premiums, or pension plan payments. Chinese housing costs only about one dollar a month, so the difference in net income is not as large.

Employee benefits vary by country. Benefits and employee perks constitute a much greater share of the overall compensation package in Europe than in America. Cross-cultural differences impact the importance of benefits. Like, vacation time is not an important benefit to the Japanese

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worker who seldom takes more than three or four days off in a year, but vacation and holiday time-off is critical in Africa, most Muslim nations, and some Latin American countries.

International oriented managers have to be accommodated into a global compensation policy which is different from the typical compensation policy in the home-country consisting of the lump-sum reimbursements. So, MNCs are gaining the insight of the changing compensation policies for its international managers and the emerging issues associated in the global compensation package.

8.1 Compensation

Compensation is the financial remuneration the employees receive in exchange for their labour. Compensation management deals with wages, salaries, pay increase, and other monetary issues. The compensation system is designed to reward employees in an equitable manner and to serve as an inducement for the attraction and retention of a good workforce.

Compensation decisions should achieve six critical objectives:

1. ***Be legal:*** Compensation decisions should be consistent with federal, state, and local laws and regulation.
2. ***Be adequate:*** Compensation should be sufficient to attract qualified job applications and retain them.
3. ***Be motivating:*** Compensation should be sufficient to provide the necessary incentives to motivate employees to high performance levels.
4. ***Be equitable:*** Employees should be made to feel that the compensation system is equitable.
5. ***Provide security:*** Employees should be made to feel that their income is secure and predictable.
6. ***Be cost-benefit effective:*** The employing organisation should administer the compensation system effectively.

Notes **Job Evaluation**

The design of a wage and salary structure begins with the job evaluation which is the process of assessing the values of the jobs within the organisation. The most common job evaluation system is the point system which is accomplished in seven steps:

1. Perform a job analysis and document or update the job descriptions.
2. Choose a point-based job evaluation that assigns point values for the various skills and responsibilities inherent in the jobs.
3. Use the point-based evaluation to assess the value of the jobs.
4. Select the key jobs and obtain a pay survey to establish their market pay rates.
5. Compare the survey pay rates for the key jobs with their job evaluation points by plotting a pay-trend line on a graph.
6. From the pay-time line, assign average pay rates to the non-key jobs.
7. Group the jobs into categories and establish pay ranges within each category.

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HR executives in global firms spend a great deal of time and effort in designing and managing compensation programmes because of their high costs and impact on corporate performance, commitment of employees and their retention. Compensation influences organisational culture, recruitment and selection of competent employees, motivation and performance. So, there are issues in designing compensation programmes, such as parity between HCNs and PCNs, state of the labour market and relevant national laws and practices.

1. ***Objectives of the international compensation plan:*** Compensation decisions are strategic decisions and play a key role in achieving performance and sustainable competitive advantage for international firms. Following are the objectives of designing the compensation plan:

   (a) These policy decisions should be consistent with the overall strategy, structure and business needs of the multinational.

   (b) The policy should attract and retain the best staff in those areas where the firm has greatest needs and opportunities and where its core competency lies.

   (c) The policy must facilitate the transfer of international employees in a cost effective manner.

   (d) The policy should give due consideration to equity and ease of administration.

   (e) They should reduce cost of operations and enhance commitment of employees and facilitate international posting and transfer of employees.

   These policy decisions regarding compensation and benefits require the knowledge of employment and taxation laws, customs, cost of living index, environment, employment practices of various countries. Without such comprehensive knowledge and database, the corporate HR executive will not be able to advise expatriates regarding avoidance of double taxation or to reimburse the actual costs or decide about incentives that will encourage employees to take up foreign assignments.

   The knowledge of labour markets and industry norms regarding benefits and compensation is also necessary. To ensure equity with PCNs, the salary of expatriates has to be adjusted for foreign currency fluctuations of the two countries unless they are paid full salary and allowances in the home country currency. If the expatriates are paid in local currency, then their salary should also be adjusted for rise in the cost of living in that country from time to time. So, HR managers have to continuously watch foreign exchange rate fluctuations and monitor rate of inflation or cost of living index in different countries.

2. ***Employee aspirations from the compensation policy:*** International employee will also have a number of objectives that need to be achieved from the firm's compensation policy. They are:

   (a) They will expect the policy to offer financial protection in terms of benefits, social security, and living costs in the foreign location.

   (b) They will expect that a foreign assignment will offer opportunities for financial advancement through income and/or savings.

   (c) They will expect that issues such as housing, education of children, and recreation will be addressed in the policy.

Did u know? In Japan, compensation is based on the traditional Oyabun-Kobun, or parent – child relationship, in which pay and promotions are determined almost entirely by seniority.

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In the new European Community (EC), efforts are progressing to establish Europay, by which member nations would develop common policies regarding employment practices, especially compensation.

Self Assessment

State whether the following statements are true or false:

1. Compensation is the financial remuneration the employees receive in exchange for their labour.
2. Compensation management deals with wages, salaries, pay increase, and other monetary issues.
3. Compensation has no influence on organisational culture, recruitment and selection of competent employees, motivation and performance.
4. The knowledge of labour markets and industry norms regarding benefits and compensation is not necessary.

8.2 Approaches to International Compensation

Whenever the employee is send abroad for the assignment, it is preceded by the fresh negotiations between the employer and the employee for its compensation.

There are two main approaches in the area of international compensation: Going Rate Approach and Balance Sheet Approach.

8.2.1 Going Rate Approach

In this approach, the base salary for international transfer is linked to the salary structure in the host country. The multinational obtains information from local compensation surveys and must decide whether local nationals (HCNs), expatriates of the same nationality, or expatriates of all nationalities will be the reference point terms of benchmarking.

Example: A Japanese bank operating in New York would need to decide whether its reference point would be local U.S. salaries, other Japanese competitors in New York, or all foreign banks operating in New York. With the Going Rate Approach, if the location is in a low-pay country, the multinational usually supplements base pay with additional benefits and payments.

Features of the Going Rate Approach: Following are the features of the going rate approach:

1. Based on local market rates.
2. Relies on survey comparisons.
   (a) Local nationals (HCNs).
   (b) Expatriates of same nationality.
   (c) Expatriates of all nationalities.
3. Compensation based on the selected survey comparison.
4. Base pay and benefits may be supplemented by additional payments for low-pay countries.

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Advantages of the Going Rate Approach: Following are the advantages of this approach:

1. Equality with local nationals (very effective in attracting PCNs or TCNs to a location that pays higher salaries than those received in the home country).
2. Approach is simple and easy for expatriates to understand.
3. Expatriates are able to identify with the host country and there is equity among expatriates of different nationalities.

Disadvantages of the Going Rate Approach: Following are the disadvantages of this approach:

1. Variation between assignments for the same employees.
2. Variation between expatriates of the same nationality in different countries.
3. Potential re-entry problems.

8.2.2 Balance Sheet Approach

It is widely used approach for international compensation. The basic objective is to "keep the expatriate whole", i.e., maintaining relatively to PCN colleagues, and compensating for the costs of an international assignment through maintenance of home-country living standard, plus a financial inducement to make the package attractive. The approach links the base salary for PCNs and TCNs to the salary structure of the relevant home country.

Example: U.S. executive taking up an international position would have his or her compensation package built on the U.S. base-salary level rather than that applicable to the host country.

The key assumption of this approach is that foreign assignees should not suffer a material loss due their transfer, and this is accomplished through the utilisation of what is generally referred to as the balance sheet approach.

Features of the Balance Sheet Approach: Following are the features of the balance sheet approach are:

1. The basic objective is maintenance of home-country living standard, plus financial inducements.
2. Home-country pay and benefits are the foundations of this approach.
3. Adjustment to home package to balance additional expenditure in host country.
4. Financial incentives (expatriate/hardship premium) added to make the package attractive.
5. Most common system in usage by multinational firms.

There are four major categories of outlays incurred by expatriates that are incorporated in the balance sheet approach:

1. ***Goods and services:*** home-country outlays for items such as food, personal care, clothing, household furnishings, recreation, transportation, and medical care.
2. ***Housing:*** major costs associated with housing in the host country.
3. ***Income taxes:*** parent-country and host-country income taxes.
4. ***Reserve:*** contributions to savings, payments for benefits, pension contributions, investments, education expenses, social security taxes, etc.

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Where costs associated with the host-country assignment exceed equivalent costs in the parent country, these costs are met by both the firm and the expatriate to ensure that parent-country equivalent purchasing power is achieved.

Table 8.1: Expatriate Compensation Worksheet

Employee:	Brian Smith		
Position:	Marketing Manager		
Country:	New Euphoria		
Reason for change:	New Assignment		
Effective date of change:	1st February 1998		
Item	**Amount A$ PA**	**Paid in A$ PA**	**Paid in local currency NE$ PA**
Base salary	135,000	67,500	101,250
Cost of living allowance	33,750		50,625
Overseas service premium (20%)	27,000	27,000	
Hardship allowance (20%)	27,000	27,000	
Housing deduction (7%)	-9,450	-9,450	
Tax deduction	-51,079	-51,079	
Total	**162,221**	**60,971**	**151,875**
COLA Index = 1500			
Exchange Rate = 1.5	Authorized / Date		

In this example, an Australian expatriate is assigned to a country called New Euphoria which has a COLA index of 150 relative to Australia, and an exchange rate of 1.5 relative to the A$. In addition to a Foreign Service premium, a hardship allowance is also payable for this location. Housing is provided by the firm, and a national cost for this is recognised by a 7% deduction from the package, along with a national tax deduction. The expatriate can see from this spreadsheet what components are offered in the package and how the package split between Australian currency and Net Euphoria currency.

Advantages of the Balance Sheet Approach: Following are the advantages of the balance sheet approach:

1. There is equity between assignments and expatriates of the same nationality.
2. It facilitates the re-entry of the expatriates.
3. It is easy to communicate to the employees.

Disadvantages of the Balance Sheet Approach: Following are the disadvantages of the balance sheet approach:

1. It is quite difficult and complex to administer.
2. It can result in great disparity between expatriates of different nationalities and between the expatriates and local nationals.

8.2.3 Differentiating between PCNs and TCNs

One of the outcomes of the balance sheet approach is to produce differentiation between expatriate employees of different nationalities because of the use of nationality to determine the relevant home-country base salary. This is a differentiation between PCNs and TCNs. Many TCNs have a great deal of international experience because they often move from country to country in the service of one multinational (or several) headquarters in a country other than their own (example, and Indian banker may work in the Singapore branch of a U.S. bank).

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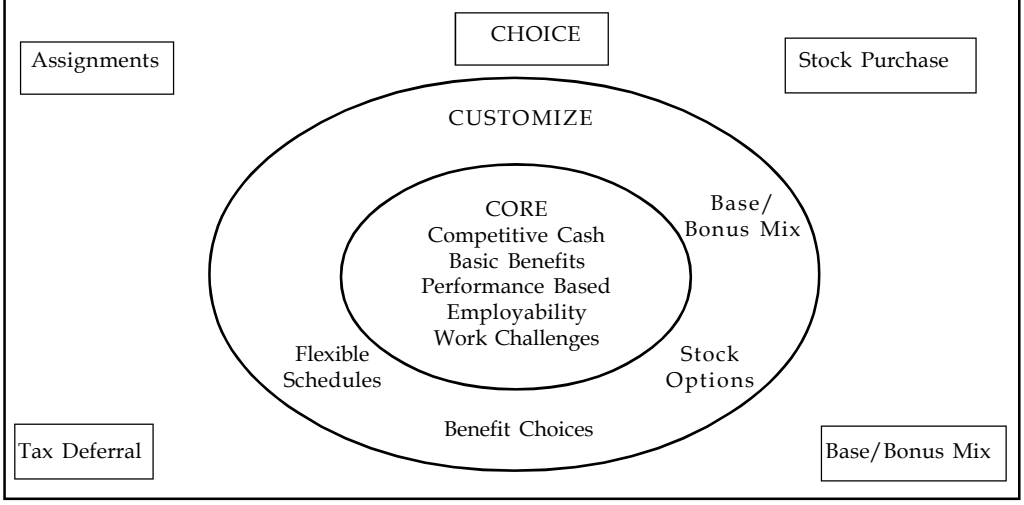
Multinational firms need to match their compensation policies with their staffing policies and general HR philosophy.

1. If a firm has an ethnocentric staffing policy, its compensation policy should be one of keeping the expatriate whole (that is, maintaining relativity to PCN colleagues plus compensating for the costs of international services).
2. If the staffing policy follows a geocentric approach, there may be no clear 'home' for the TCN, and the firm will need to consider establishing a system of international base pay for key managers paid in a major reserve currency, such as the U.S. dollar or the Deutsche Mark.

Nationality influences on managing compensation and reward systems internationally, and propose a strategic model as:

Figure 8.1: Strategic Flexibility Model of International Compensation



Source: Compensation and Benefits Review, 1995 (30 no. 1) p. 22

This model groups consist of total compensation into three sets: core, crafted, and choice.

1. Specific practices in the core section may vary according to market and local conditions but must be consistent with the core policies.
2. Crafted set of compensation elements assumes that regional managers have discretion to choose from a menu of compensation forms.
3. Alternatives in the choice set of offer flexibility for employees to select among various forms of compensation.

The model supports the performance management approach. This model has the potential to overcome the problems identified in both the Going Rate and Balance Sheet approaches to international compensation because firms may be able to utilise aspects of both approaches that suit particular circumstances.

8.2.4 International Living Costs Data

Obtaining up-to-date information on international living costs is a constant issue for multinationals. Many multinationals retain the services of consulting firms that may offer a broad range of services or provide highly specialised services relevant to HRM in the multinational context. With regard to international living costs, a number of consulting firms

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offer regular surveys calculating cost-of-living index that can be updated in terms of currency exchange rates.

Multinationals using the balance sheet approach must constantly update compensation packages with new data on living costs, an ongoing administrative requirement. This is an issue to which expatriate employees pay great attention, and forms the basis of many complaints if updating substantially lags behind any rise in living costs. Multinationals must also be able to respond to unexpected events, such as the currency and stock market crash that suddenly occurred in a number of Asian countries. Some countries, such as Indonesia, faced a devaluation of their currency by over 50% against the U.S. dollar in a matter of weeks, which had a dramatic impact on prices and the cost of living.

MNCs should focus on business costs rather than living costs for expatriates because the multinational firm is interested in the overall cost of doing business in a particular country as well as the more micro issue of expatriate living costs.

Germany is the most expensive country overall because of its very high basic wages, while the second most expensive rank for the United States is in large part because of high executive salaries. In general, developed countries rank as more expensive than developing countries because their wage costs are higher.

Self Assessment

Fill in the blanks:

5. The two main approaches in the area of international compensation are ……Approach and Balance Sheet Approach.
6. In going rate approach, the base salary for international transfer is linked to the salary structure in the …… country.
7. …… approach links the base salary for PCNs and TCNs to the salary structure of the relevant home country.
8. …… approach can result in great disparity between expatriates of different nationalities and between the expatriates and local nationals.
9. …….. set of compensation elements assumes that regional managers have discretion to choose from a menu of compensation forms.

8.3 Key Components of International Compensation Programme

The area of international compensation is complex primarily because multinationals must cater for three categories of employees: PCNs, TCNs, and HCNs. The key components of international compensation include base salary, Foreign Service inducement/hardship programme, allowances, benefits and taxation.

1. ***Base Salary:*** The term base salary acquires a different meaning when employees go abroad. In a domestic context, base salary denotes the amount of cash compensation that serves as a benchmark for other compensation elements (example, bonuses and benefits). For expatriates, it is the primary component of a package of allowances, many of which are directly related to base salary (example, Foreign Service premium, cost-of-living allowance, and housing allowance) as well as the basis for in-service benefits and pension contributions. The base salary is the foundation block for international compensation and the employee's package depending on whether the base salary is linked to the home country of the PCN or TCN or whether an international rate is paid.

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2. ***Foreign Service Inducement/Hardship Premium:*** Parent-country nationals often receive a salary premium as an inducement to accept a foreign assignment as compensation for any hardship caused by the transfer. Under such circumstances, the definition of hardship, eligibility for the premium, and amount and timing of payment must be addressed. These payments are more commonly paid to PCNs than TCNs. Foreign service inducements are usually made in the form of a percentage of salary, usually 5 to 40% of base pay. Such payments vary, depending upon the assignment, actual hardship, tax consequences, and length of assignment.

3. ***Allowances:*** Issue concerning allowances can be very challenging to a firm establishing an overall compensation policy because of the various forms of allowances that exist. The Cost-of-living Allowance (COLA) involves a payment to compensate for differences in expenditures between the home country and the foreign country.

   (a) *Housing allowance* provision implies that employees should be entitled to maintain their home-country living standards. Such allowances are often paid on either an assessed or an actual basis. Other alternatives include company-provided housing, either mandatory or optional; a fixed housing allowance; or assessment of income, out of which actual housing costs are paid. Financial assistance and protection in connection with the sale or leasing of an expatriate's former residence are offered by many multinationals. Those in the banking and finance industry tend to be the most generous, offering assistance in sale or leasing, payment of closing costs, payment of leasing management fees, rent protection, and equity protection.

   (b) *Home leave allowances* allows the employers to cover the expense of one or more trips back to the home country each year. The purpose of paying for such trips is to give expatriates the opportunity to renew family and business ties, thereby helping them to avoid adjustment problems when they are repatriated.

   (c) *Educational allowances* for expatriate's children are an integral part of any international compensation policy. Allowances for education can cover items such as tuition, language class tuition, enrolment fees, books and supplies, transportation, room and board, and uniforms. The level of education provided for, the adequacy of local schools, and transportation of dependents who are being educated in other locations may present problems for multinationals. The employer typically covers the cost of local or boarding school for dependent children, although there may be restrictions, depending on the availability of good local schools and on their fees.

   (d) *Relocation allowances* usually cover moving, shipping, and storage charges, temporary living expenses, subsidies regarding appliance or car purchases (or sales), and down payments or lease-related charges. Allowances regarding perquisites (cars, club memberships, servants, etc.) may also need to be considered (usually for more senior positions, but this is according to location). These allowances are often contingent upon tax-equalisation policies and practices in both the home and the host countries.

   (e) *Spouse assistance allowance:* This is provided by many multinational firms as it help guard against or offset income lost by an expatriate's spouse as a result of relocating abroad. Although some firms may pay an allowance to make up for a spouse's lost income, U.S. firms are beginning to focus on providing spouses with employment opportunities abroad, either by offering job-search assistance or employment in the firm's foreign unit.

4. ***Benefits:*** International benefits bring more difficulties while dealing with compensation for the employees. Pension plans are very difficult to deal with country to country because

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national practices vary considerably. Transportability of pension plans, medical coverage, and social security benefits are very difficult to normalise.

Most U.S. PCNs typically remain under their home-country's benefit plan. In some countries, expatriates cannot opt out of local social security programmes. In such circumstances, the firm normally pays for these additional costs. European PCNs and TCNs enjoy portable social security benefits within the European Union.

Multinationals also provide vacations and special leave. Included as part of the employee's regular vacation, annual home leave usually provides airfares for families to return to their home countries.

Rest and rehabilitation leave based on the conditions of the host country also provides the employee's family with free airfares to a more comfortable location near the host country. Emergency provisions are available in case of a death or illness in the family. Employees in hardship locations often receive additional leave expense payments and rest and rehabilitation periods.

5. ***Taxation:*** Taxation causes the most concern to HR practitioners and expatriates (both PCNs and TCNs) since it generally evokes emotional responses. No one enjoys paying taxes and this issue can be very time consuming for both the firm and the expatriate. For the U.S. expatriate, an assignment abroad can mean being double – taxed-both in the country of assignment and in the United States. This tax cost, combined with all the other expatriate costs, makes some U.S. multinationals think twice about making use of expatriates.

Notes **Multinationals generally select one of the following approaches to handle international taxation:**

1. ***Tax equalisation:*** firms withhold an amount equal to the home country tax obligation of the PCN, and pay all taxes in the host country.
2. ***Tax protection:*** the employee pays up to the amount of taxes he or she would pay on compensation in the home country. In such a situation, the employee is entitled to any windfall received if total taxes less in the foreign country than in the home country.

Tax equalisation is by far the more common taxation policy used by multinationals. Thus, for PCN, tax payments equal to the liability of a home-country taxpayer with the same income and family status are imposed on the employee's salary and bonus. The firm pays any additional premiums or allowances, tax-free to the employee. As multinationals operate in more and more countries, they are subject to widely discrepant income tax rates.

Example: In Singapore, if the expatriate receives the payment for the services rendered outside the country are not subjected to Singapore taxation, if a separate contract is established between the expatriate and a non-Singapore employer.

Did u know? Golden parachute is an agreement between a company and an employee (usually upper executive) specifying that the employee will receive certain significant benefits if employment is terminated. Sometimes, certain conditions, typically a change in company ownership, must be met, but often the cause of termination is unspecified. These benefits may include severance pay, cash bonuses, stock options, or other benefits. It is for the executive protection.

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Task Critically analyse the compensation practices across India, USA, China and Japan.

Caselet

International Packages

By Dona Dezube

Negotiating compensation can be tricky in the US, but if you're offered an international job, compensation issues grow exponentially more complex.

While packages differ by company, some items appear in most international employment offers: a housing allowance, help paying taxes, spousal employment help and trips home. Those extra items can more than double compensation.

Missing a big-ticket item will lower your living standard thanks to the extra costs of international living, says Geoffrey Latta, executive vice president of ORC Worldwide, a New York City-based workforce consultancy.

Location matters, too. "The way you negotiate your package and the things you put in your package are highly dependent on the countries where you go," says Alain Verstandig, president of Net Expat, an Atlanta international relocation company.

Culture influences how and when an international salary is negotiated. In the UK, whether the position is one with a new company or your current firm, start the conversation by talking about your place on a team, achievements and your added value, and then discuss salary.

In Shanghai, attitudes toward pay are split. "Anyone over 40 would be against talking about money, but the younger generation is extremely direct about talking about money, so analyse the age group of the recruiter," Verstandig says.

Source: http://career-advice.boston.monster.com

8.3.1 Termination of Contract

One aspect of compensation that varies from country to country and has important implications for both subsidiary HR managers and HQ-based managers is the issue of what happens if the MNC decides to leave a foreign country or another firm takes over the management, and is not interested in doing business in this country. When such a decision is made, termination liabilities may result in significant payoffs to employees. By tradition, or law, or union contract, the MNC may be required to pay up to two years' salary to employees who are involuntarily terminated.

Self Assessment

Fill in the blanks:

10. …… salary denotes the amount of cash compensation that serves as a benchmark for other compensation elements.
11. The Cost-of-living Allowance (COLA) involves a payment to compensate for differences in expenditures between the ……... country and the foreign country.

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12. …… allowance provision implies that employees should be entitled to maintain their home-country living standards.

13. Tax …… is by far the more common taxation policy used by multinationals.

8.4 Executive Compensation

Executive compensation refers to the compensation received by the top executives of business corporations. This includes a basic salary, bonuses, shares, options and other company benefits. Because of the changing economic conditions, it is very difficult to find and retain the executives who can motivate the people and lead the company to the heights by clearly communicating and achieving the vision of the organisation.

It is a common trend that the executives are swayed by the unique and the challenging opportunity rather than the attractive compensation packages. But, over the past three decades, executive compensation has risen dramatically beyond the rising levels of an average worker's wage. Executive compensation is an important part of corporate governance, and is often determined by a company's board of directors.

Overall compensation is very important as the qualified candidate enjoys more negotiating power. So, the company needs to have a flexible compensation packages for their executives. Executive compensation packages can be designed by studying the competitors offerings as well.

8.4.1 Components of Executive Compensation

The basic components of the executive compensation includes the base salary, short-term incentives or bonuses, long-term incentive plans, employee benefits, perks and compensation protection (golden parachute). Long-term incentive plan comes in the form of performance shares or matching shares of the company.

In addition to it, the executives participate in "broad based" employee benefit plans and receives special benefits like life insurance and supplemental retirement's plans. The compensation package of the executives is very flexible as the components of their compensation packages may vary from equity, restricted stock, flexible schedules, deferred compensation, performance incentives and other kind of compensation.

1. Equity or stock options are the contracts which give the recipient the right to buy the share of the stock at a "pre-specified" exercise price for a pre-specified term. The amount of the stock option given by the company to its executive depends on the industry and the valuation of the stock. They typically become exercisable over time. They are normally non-tradable and are forfeited if the executive leaves the firms before exercising.

2. Restricted stock are the stocks given to an executive that cannot be sold until certain conditions are met and has the same value as the market price of the stock at the time of grant. As the size of stock option grants have been reduced, the number of companies granting restricted stock either with stock options or instead of has increased.

3. Now a day's international companies have started adding flexible schedules to the executives pay packages. Employers offering the flexi time or compressed workweeks, in geography (telecommuting or satellite workplaces), in time off (floating holidays or vacations carry over) and in career paths (job-sharing) have an added advantage in attracting the talent pool.

4. Deferred compensation plans are effective tools for retaining employees because they reward employees based on the company's performance over time (typically three to five

years). They are an investment vehicle that allows people to defer taxation of both the initial contribution and the earnings on the deferred assets.

5. Performance incentives are special incentives – shares of stock, cash, vacations, or other bonuses – tied to the performance of the department or business area that the executive manages. Performance incentives linked to long-term goals create vision that can inspire an executive to remain committed to a company.

6. Other benefits like car allowances, life insurance, relocation payments, flexible start dates, signing bonuses, use of company-owned vacation property, health-club membership, tuition reimbursements, etc. Offering non-monetary incentives also helps in attracting the talented candidates for the executive level.

Example: US corporations pay their top executives salary and short-term incentives or bonuses. This combination is referred to as Total Cash Compensation. Short-term have some performance criteria attached depending on the role of the executive. The Sales Director's performance related bonus may be based on incremental revenue growth turnover; a CEO's could be based on incremental profitability and revenue growth.

8.4.2 Strategies for the Growth of Executive Compensation

There are a number of strategies that could be employed as a response to the growth of executive compensation.

1. In the United States, shareholders must approve all equity compensation plans. Shareholders can simply vote against the issuance of any equity plans. This would eliminate huge windfalls that can be due to a rising stock market or years of retained earnings.

2. Independent non-executive director setting of compensation is widely practiced. Remuneration is the archetype of self dealing. An independent remuneration committee is an attempt to have pay packages set at arms' length from the directors who are getting paid.

3. Disclosure of salaries is the first step, so that company stakeholders can know and decide whether or not they think remuneration is fair. In the UK, the Directors' Remuneration Report Regulations 2002 introduced a requirement into the old Companies Act 1985, the requirement to release all details of pay in the annual accounts.

4. A say on pay – a non-binding vote of the general meeting to approve director pay packages, is practiced in a growing number of countries. The aim is that the vote will be a highly influential signal to a board to not raise salaries beyond reasonable levels.

5. Progressive taxation is a strategy that affects executive compensation, as well as other highly paid people. There has been a recent trend to cutting the highest bracket tax payers. Executive compensation could be checked by taxing more heavily the highest earners.

6. Maximum wage is the idea to place a cap on the amount that any person may legally make, in the same way as there is a floor of a minimum wage so that people can not earn too little.

7. Indexing Operating Performance is a way to make bonus targets business cycle independent. Indexed bonus targets move with the business cycle and are therefore fairer and valid for a longer period of time.

Executive compensation is a very important issue for investors to consider when making decisions. An improperly compensated executive can cost shareholders money and can produce

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an executive who lacks the incentive to increase profits and boost share price. Meanwhile, the government is working to curb the problem with new laws that close loopholes and make the process more transparent. Combined with new analysis tools, investors are now much more informed.

Task Make a study of compensations being paid to expatriates of different organisations and analyse the difference.

Self Assessment

Fill in the blanks:

14. …… compensation refers to the compensation received by the top executives of business corporations.
15. Equity or ……. options are the contracts which give the recipient the right to buy the share of the stock at a "pre- specified" exercise price for a pre-specified term.

Case Study

Lucent Technologies

Lucent Technologies was spun-off from AT&T in 1996, representing one of the most successful initial offerings in history. Lucent conducts business in 94 countries with more than 1,30,000 employees. The company is one of the world's leading designers, developers and manufactures of communication system, software and products. Among its most significant intellectual assets is the prestigious Bell Labs, which is the foundation of Lucent's research and development efforts.

HR at Lucent

While Lucent is competing in the rapidly changing technology market, and has become a flexible and nimble 'new' organisation, it carries the legacy of AT&T. But it is dedicated to break with that tradition with respect to how it manages human resources. Lucent's goal is to shift from the old 'entitlement' culture to a new culture that focuses on individual accountability and results. The demand and challenges of this organisation renewal effort are reflected in a Workforce that is relatively senior and where the number of retirees exceeds the number of current employees. In contrast to AT&T, Lucent is very intensive with more than 40,000 employee under union contract.

Within this context, Lucent's HR is committed to the goal of 'unleashing the power of Lucent people for competitive advantage and superior business results.' To support that goal, Lucent is in the process of a major effort to restructure and refocus its HR function. The new HR function intends to be fast, focused on business needs, and flexible. Its personnel will achieve these goals by emphasising both operational excellence and value creation, the latter reflecting a move away from an active focus on results. Finally, HR is committed to raising the leadership profile of human resources at Lucent, with the belief that it can provide value for its business partners, and it aggressively shares that story outside the HR community.

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This strategy begins with clear to links Lucent's five simultaneous equations: five financial goals (example double return on assets, achieve double-digit growth in revenue and operating income while maintaining gross margins) and five growth goals (above market growth rates in five specific business areas). Lucent intends to drive this growth through the development of a High Performance Operating Environment, using the acronym GROWS to indicate the importance of:

1. Global growth mindset;
2. Result, not activity focus;
3. Obsession with customers and about competitors;
4. An underlying, pervasive emphasis on Work and Speed.

The new HR structure is organised around a client service model that focuses on its pre-eminent clients, on the leaders in the major business units charged with achieving these financial and growth goals. A key feature of this strategy is the movement of as much of HR as possible to these business units.

High Impact HR Policies at Lucent

Lucent's new HR structure is the foundation of the high-profile role HR will play in the company. The model emphasises client services at three levels of the organisation: individual employee/retiree (nearly 3,00,000) in total, supervisor/coaches (33,000) and senior leaders (381). There is a delivery channel established for each of these clients that draws on separate HR policy and centres of excellence. At one level, Lucent is committed to operational excellence on a one-to-one interface. For example, Lucent reports that 90% of the clients using the employee centre have their problems handled on the first call. Business HR Services has moved from 115 days' job requisition to start date to less than 40 days. More than 85% of all clients using HR's business services report being 'very satisfied' with HR; the goal is 90%.

The lynchpin for value creation throughout Lucent, however, is the role of HR business partners in which HR leaders work directly with the senior business leaders to implement business strategy. While the business partners, and indeed each of the three delivery channels are measured against strict client satisfaction objectives, their ultimate goal is for the senior executives to say at the end of the year, "we were very successful and could not have done without HR." The vision requires strong commitment to the senior leadership that HR is working on their problems and that all HR initiative are always focused on solutions for their clients. The details mean going to staff meetings, even when there are no HR issues to be discussed, so HR representatives can better understand the business and contribute to business decisions beyond HR issues; or the creation of team of 58 HR professionals (The HR Accelerators) whose job is to find and eliminate (dismantle) HR policies and practices that no longer add value to Lucent's shareholders; or it means bringing the marketing manager from network systems to address a video town meeting of the worldwide Lucent's HR community. The speaker describes what is required to significantly grow business and how HR can partner in these efforts (better motivational programmes for the sales force, new competencies based on future oriented thinking, and so on).

Competency Model for Business Partner Role

Lucent also developed a new competency model to support the development of the business partner role HR. The competencies were developed using internal reviews and external

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benchmarking sources and emphasise five areas that answer the question, 'What are the knowledge, skills, commitments that will enable the business partners to their customer's (internal client's) expectations?' These competencies are then to be integrated into an HR system of learning and developing, staffing and selection, career development and performance management. The initial integration is through individual assessment tools that form the basis of a customised career development plan. The business partner competency model will, over time, serve as a foundation for such models in other HR roles at Lucent.

Talent Acquisition

Talent acquisition is a high-impact HR area for Lucent because the firm is looking to grow rapidly in selected markets, often representing competencies outside their traditional strengths. While this remains a continuing challenge, Lucent's HR function is making progress, as a business partner, in being able to anticipate and respond quickly to the work force planning implications of the client's business strategies. HR personnel have been able to incorporate work force planning models at the strategy development stage in a way that allows them to get the right person in the right place and at the right time. For example, the HR has developed a simple staffing model based upon benchmarked work force productivity numbers (revenue per employee), given revenue projection at the business level. Using the revenue/employee estimates, HR can estimate reasonable headcount project and skill mixes. This also allows them to avoid overstaffing and the subsequent downsizing required. The key challenge here is for the HR leader to develop the personal competencies to coordinate not only the technical analysis, but perhaps more importantly, to play the genuine leadership role necessary where HR and business problems interface.

Creating a High Performance Culture

The challenges of overcoming an 'entitlement' culture remain significant. For example, in certain business units, such as Bell Labs, concrete actions have been taken to modify the traditional culture of being very egalitarian, (where executives got very similar stock option grants in the past). After the changes in HR, for the first time out of 25 executives in one unit, 5 got no options and another 12 received 180% of the 'average' distribution. Similarly, Lucent (and predecessors) had tolerated poor performers for significant periods of time. Now, under the new performance improvement process, the lowest performing managers are required to improve or they are moved out of Bell Labs (to less demanding R&D work in Lucent) or even terminated.

Compensation

Lucent's compensation system continues to evolve with the new demands on the company. The share of variable pay among lower-level employees has been increased. Lucent has changed its pay system, which has historically been driven by job evaluation based on the Hay system. For middle managers, variable pay represents about 16% of the total compensation.

80% is based on Lucent's corporate performance and other 8% is based on unit performance and individual performance. For individual rewards, the pool is determined by unit performance. Manager's reward is based on individual rewards working under them.

Earlier there were 350 types of grants, from which employees could choose up to the extent based on management's evaluation of their performance. The company also provided every employee on a worldwide basis 100 options as 'founder's grants' when Lucent went public.

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Lucent developed what is called a 'policy deployment' plan for its bonus programme in Network Systems, the largest unit before reorganisation. Managerial bonuses are based on three components: financial (60%), customer (20%), and people (20%). The people dimension of the plan was based on Management by Objective (MBO) thresholds involving the high-performance cultural initiative, diversity goals, and had 100% of the employees with development plans. If the company did not meet its earnings per share goals, there would be no bonus irrespective of performance on the Other Dimensions.

Challenges Facing HR in Lucent

Many of the Lucent's most pressing HR challenges revolve around supporting the need for organisational renewals and new competencies at a time when global markets demand very short cycle times. Business units are often required to start a new 'business' from scratch over very short timeframes in order to respond to customer demands. The ability to 'ramp up' this type of recruiting and hiring effort in a company that, until recently, had focused largely on downsizing is a significant challenge. More broadly, HR needs to support a larger renewal effort in all of the business units with focus on significant hiring of 'new blood' with the drive and future-oriented skill sets that Lucent's new strategy demands. But again, the key challenge is to get these competencies in a timely fashion so that human capital issues do not impede the successful implementation of the firm's strategy.

A related theme involving organisational renewal is the relationship between the firm's performance management and development process. Lucent needs to develop new competencies among the existing workforce and had developed a clear strategy for achieving this goal. Senior managers are adopting a vision of leadership that focuses on bringing the most out of people, while at the basic supervisory level, managers need to do a much better job of coaching for development and changes. Lucent also continues to work on appropriate development policies. It is investing very significant resources in employee training, but is in the process of identifying the returns from this investment in quantifiable terms. Finally, Lucent's leadership understands they have some skill gaps, but see it as one of their challenges. The need is to create competencies, to understand the development implications of this gap, on the part of both the HR and the line managers.

HR Competencies

As far as Lucent's HR function in developing its new strategic role is concerned, there was recognition that the HR community also requires additional 'reinvention'. It was observed that HR was good at cost control and transaction business, but not as competent in adding strategic value. This will require HR, which has traditionally been relatively isolated from the major business strategic decisions, to break with its past behaviour if it is to fulfil its role as a business partner. In fact, as the concept of service excellence becomes critical throughout the firm, many more people will be engaged in HR work, so the relationship between HR and its staff role will need to be transparent. Lucent needs to ask: What kind of competencies will be advisory role required to facilitate this transaction?

HR at Bell Labs

Bell Labs has a unique group of employees involved in some unique HR challenges. Firstly, HR cannot "get in the way" or fulfil the role of the gatekeeper or 'policy police'; it simply will not be tolerated in this environment. In addition, talent acquisition takes the form of 'one of a kind' hires, rather than 100 engineers at a time. At the same time, HR has to develop broader business acumen and managerial skills among a group of managers that think typically that technology is all that matters. Finally, Bell Labs currently employs

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less than 5% of its workforce. This will change in the future as Lucent will be expected to establish a 'Bell Lab presence' in many of its significant international markets.

Labour Relations

Given Lucent's labour intensity and increasing pressure to control costs, the Company is likely to face a major challenge with respect to labour relations. Lucent cannot afford to continue strategies of the past. The company is intent on changing its traditional relationship with its labour unions based on the fact that it no longer is a telecommunications service provider and competes against a different set of competitors.

Questions:

1. What are the 'salient features' of the human resource policies being practised in Lucent? Describe in detail.
2. Do you think the competency model for business partner role in Lucent is effective in view of the integration of competencies into an HR system of learning and development? Discuss in the light of the facts given in the case.
3. Do you feel that compensation policies in Lucent are comparable with some of the best international employers? Explain your views with the help of examples, if any.
4. What are the various HR challenges being faced by Lucent in view of the highly competitive global markets? How is Lucent managing the same?

Source: Rao, P. L. *International Human Resource Management*. First Edition. India. New Delhi.

8.5 Summary

- Compensation tends to vary widely around the business world due to the economic differences, differences in development levels, political factors, traditions and culture.
- Compensation is the financial remuneration the employees receive in exchange for their labour.
- HR executives in global firms spend a great deal of time and effort in designing and managing compensation programmes because of their high costs and impact on corporate performance, commitment of employees and their retention.
- Whenever the employee is send abroad for the assignment, it is preceded by the fresh negotiations between the employer and the employee for its compensation.
- The area of international compensation is complex primarily because multinationals must cater for three categories of employees: PCNs, TCNs, and HCNs.
- The key components of international compensation include base salary, Foreign Service inducement/hardship programme, allowances, benefits and taxation.
- Compensation decisions are very strategic decisions and are important for achieving organisation goals and objectives.
- Executive compensation structure varies from organisation to organisation.

8.6 Keywords

A Say on Pay: A non-binding vote of the general meeting to approve director pay packages.

Balance Sheet Approach: The base salary for PCNs and TCNs to the salary structure of the relevant home country.

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Benefit: An indirect reward given to the employees as a part of the organisational membership.

Compensation: It is the financial remuneration the employees receive in exchange for their labour.

Going Rate Approach: The base salary for international transfer is linked to the salary structure in the host county.

Job Evaluation: The process of assessing the values of the jobs within the organisation.

Stock Options: It is the contract which gives the recipient the right to buy the shares of the stock at a pre-specified exercise price for a pre-specified term.

Vesting: The period of time before the recipient has the right to transfer shares and realise value. Vesting can be based on time, performance or both.

8.7 Review Questions

1. Examine the key components of an international compensation plan for an international firm.
2. Analyse the approaches for the international compensation plan.
3. Being a corporate HR, explain your plan/approaches you will follow for handling international taxation of the employees.
4. You are the HR manager of international firm. Devise the compensation plan for the middle-level executive.
5. What factors you will consider in devising a compensation plan for the expatriate?
6. Devise the strategies for the growth of the executive compensations.
7. Critically analyse the need for a compensation plan in the organisation.
8. You are the employee of a company which has recently decided to send you abroad for the assignments. Outline your expectations from the company in terms of compensation.
9. "Certain knowledge of national tax structure regarding expatriate income is important while devising international compensation policy". Justify.
10. Being the HR manager of the firm, give a detail outline of the compensation management in international context.
11. "Compensation policy of a company helps in attracting and retaining the talented pool" Do you agree? Justify.

Answers: Self Assessment

1.	True	2.	True
3.	False	4.	False
5.	Going rate	6.	Host
7.	Balance Sheet	8.	Balance Sheet
9.	Crafted	10.	Base
11.	Home	12.	Housing

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13. Equalisation
14. Executive
15. Stock

8.8 Further Readings

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Unit 9: Global HR Issues in the Host Context

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Objectives

After studying this unit, you will be able to:

- Describe standardisation and adaptation of work practices
- Explain retaining, developing and retrenching staff
- Discuss about language standardisation
- Describe monitoring HR practices

Introduction

A multinational's approach to its subsidiary operations centres around the process, procedures and practices that can be and should be transferred, and to degree to which they require adaptation, so as to be effectively implemented at the local level. Transferring technology, systems and know-how are seen as significant aspects, and the role of people in the process is a critical part.

9.1 Standardisation and Adaptation of Work Practices

Expatriates are used to oversee the successful implementation of appropriate work practices, and there is a link between the number of expatriates and the transfer of multinational work practices.

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At some point, multinational management replaces expatriates with local staff with the expectation that these work practices will continue as planned. This approach is based on assumptions that appropriate behaviour will have been instilled in the local workforce through training programmes and hiring practices, and that the multinational's way of operating has been accepted in the manner intended. In this way, the multinational's corporate culture will operate as a subtle, informal control mechanism—a substitution of direct supervision.

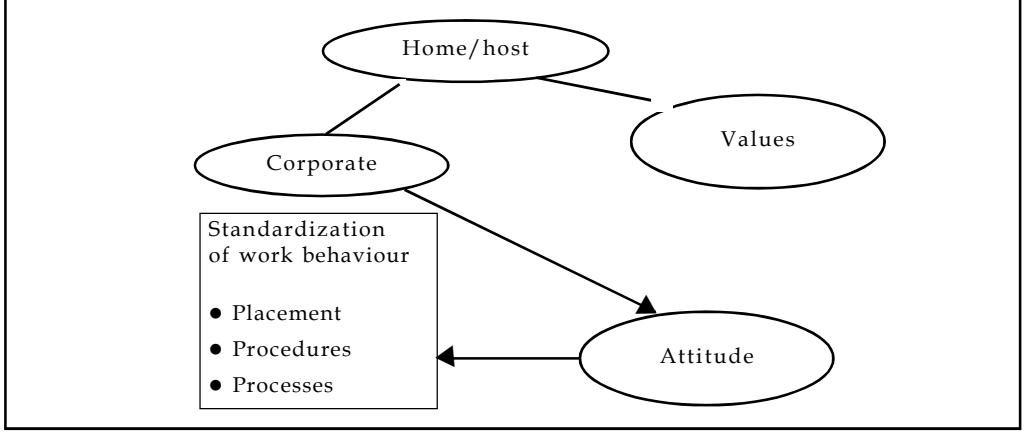
This depends on receptivity of the local workforce to adhere to corporate norms of behaviour, the effectiveness of expatriates as agents of socialisation and whether cost considerations have led the multinational to localise management prematurely. Thus, the standardisation adaptation choice that confronts the multinational in other areas of its operations applies to the management of the global workforce. Factors that influence standardisation are:

1. Host-country culture and workplace environment,
2. The mode of operation involved,
3. The size and maturity of the firm, and
4. The relative importance of the subsidiary.

9.1.1 Host-country Culture and Workplace Environment

National culture is a moderating variable in international HRM. Members of a group or society share a distinct way of life with common values, attitudes and behaviours that are transmitted over time in a gradual process. Values and attitudes towards behaviour are affected by culture.

Figure 9.1: Linkage between Culture and Behaviour



Source: International Dimensions of Organisational Behaviour, 3rd (1997), p. 16

Work behaviour is culturally determined to the extent that it is contained in role definition and expectations. For a multinational with subsidiary operations in 70 countries, establishing a common corporate culture may be important for cohesion, but whether that corporate culture can supersede or supplant other 'cultures' is a question. The managerial attitudes towards subsidiary management may include a firm belief in the power of a strong corporate culture and expectations that employees internalise or 'buy into' corporate values.

Standardisation of work practices involves behaviour modification through corporate training programmes, staff rotation, rewards and promotion, most of which fall into ambit of the human resource function. These activities concentrate on developing and maintaining corporate-defined behavioural standards and processes that ensure their adherence. A corporate code of conduct is a good example of this.

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Corporate identity is important and it is possible to generate a sense of pride and belongingness that enable unity of purpose to be achieved. Subsidiary staff may have strong identity with the local unit, but the challenge is to foster employee identification with the global level.

People may be prepared to adopt certain work behaviours to retain their employment, but that does not necessarily mean that they ascribe to the corporate values that shape required behavioural outcomes.

Example: Chinese working in Japanese plants in China perceived team briefings and other such forums as a new form of rhetoric, replacing nationalist and Communist party propaganda of the past, and consequently were considered of little value by workers and managers.

Cultural distance also affects the degree to which work practices require adaptation. One can expect hiring practices to be more between the US and India. As more multinationals set up operations in countries previously closed to foreign direct investment on a large scale, one can expect some convergence of HR practices.

The presence of expatriates and their ability to encourage and impose appropriate work behaviour also affects the work culture. A preference is given to HCN in key positions by multinationals operating in India because they could learn easily in his years spent on the job. Localisation of HR staff positions is more likely to ensure that local customs and host-government employment regulations are followed.

9.1.2 Mode of Operation

A multinational ability to impose standardised work practices is not only affected by cultural differences that may create resistance to change from subsidiary staff. It is affected by the form of operation that the multinational uses.

Entering via an acquisition may provide the multinational with market advantages, but its ability to transfer technical knowledge, systems and HR practices may be restricted. Plant and equipment may need upgrading along with the skills of the work that the purchaser inherits. It is called Brownfield – where the multinational acquires an existing local firm as part of the establishment of a local operation, but the multinational effectively replaces many of the resources and capabilities.

The local company requires considerable investment and restructuring to make it operational, and this will include human resources, with a high demand on expatriates initially. Investment in training programmes has been a critical factor. This type acquisition is more common in emerging markets, such as those of Eastern Europe.

Mode of operation can inhibit or facilitate standardisation. There are two examples that can be used to prove that. In late 1978, the Chinese government announced an open-door policy and commenced economic reforms aimed at moving the country from a centrally planned to a market economy. Western firms that entered China early were more or less forced to enter into joint ventures with State Owned Enterprises (SOEs), whereas those entering later have been able to establish wholly owned operations.

Example:

1. Shanghai Bell-a joint venture formed in 1983 between a Belgian telecommunication firm, the Belgian government and the Chinese Postal and Telecommunications Industries Corporation (PTIC). There was a gradual transfer of relevant technology by the Belgian

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firm with a long-term reliance on Belgian expatriates. The Belgian firm had limited control over the Chinese employees in the joint venture and was constrained by its partner's expectations and differing goals.

2. The US telecommunications firm Motorola established a wholly owned operation in Tianjin, China, in 1992. Changing conditions in China meant that Motorola could effectively build a 'transplant factory': importing production equipment, organisational processes and practices from either the parent or other subsidiaries in its global network. This enabled Motorola to integrate the Chinese operations into the broader corporate network, and to localise management. These have been supported by HR initiatives such as a special management training programme (CAMP – China Accelerated Management Programme). English language training and transfer of Chinese employees into US operations. Motorola has been able to transfer its processes and systems, such as Six Sigma quality control, bringing its technology, knowledge and work practices, supported by HR activities, into the new facilities in China relatively quickly.

Ownership and control are factors that need to be taken into consideration while MNCs opts for the standardisation of work practices. The autonomy to implement processes and procedures is naturally higher in wholly owned subsidiaries. Complementarities between International JV partners and the degree of interdependence between the International JV and multinational are important influences on effective JV operation and transfer of work practices. The importance of a strategic objective for the International JV in determining work practices in China has been studied. Those firms pursuing a strategic position in China were more likely to seek to diffuse task related work practices compared with those who were more short-term. The task-related influence in an International JV plays important role in directly shaping HRM practices.

The management contract involves the heavy use of expatriate staff. External recruitment for the majority of management staff requires the contract filling. The purpose is to buy management expertise that expatriates bring to the situation. There is a large component of training of HCNs involved. Management may not have the same degree of discretionary power that full ownership brings.

Example: The US hotel chain Holiday Inn had a 10-year contract with a Tibetan hotel. The expatriate managers were precluded from giving incentives to or disciplining its staff. This created some difficulties when hotel employees took their breaks at the same time – which happened to be when guests arrived expecting lunch. Management contracts are used extensively in the hotel industry.

Franchising refers to the methods of practicing and using another person's business philosophy. The franchiser grants the independent operator the right to distribute its products, techniques, and trademarks for a percentage of gross monthly sales and a royalty fee. Various tangibles and intangibles such as national or international advertising, training, and other support services are commonly made available by the franchiser. Agreements typically last from five to thirty years, with premature cancellations or terminations of most contracts bearing serious consequences for franchisees.

9.1.3 Firm Size, Maturity and International Experience

Key factors influencing international operations are the size and maturity of the multinational. Motorola's experience in China reflects its large size and the fact that it had a wealth of international experience upon which Motorola management could draw when considering entering a transitional economy such as China.

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A smaller multinational who is a relative newcomer to international business, may not have the same level of ability or resources and an alternative mode of operation such as a joint venture would be an attractive proposition.

9.1.4 Subsidiary Mandate

The position of the subsidiary is related to the size and maturity of the multinational. Subsidiaries roles and positions alter over time and related to subsidiary initiative-taking, power and resource relationships, host-country environment, and the predisposition of top management and the active championing of subsidiary managers. This proves that subsidiaries may be both initiators and producers of critical competencies and capability that contribute to competitive advantage. Centres of excellence at the subsidiary level can be viewed as an indication of MNCs recognising the levels of expertise that differs across the organisation and that not all innovation and best practice originate from headquarters.

Example: General Electric's establishment of a centre of excellence in Hungary affected the subsidiary's mandate, changing it from being a miniature replica of the parent to being strategically independent or a product specialist.

Staff movements across subsidiary operations are one way to break down these barriers and produce corporate rather than subsidiary champions who are prepared to disseminate information about subsidiary initiatives and capabilities and recommend adoption in other parts of the organisation where appropriate.

Personal relationships are built up by when key staff visits to other units, facilitated information sharing and the eventual adoption of new products by other subsidiaries. Face-to-face meetings are important in building trust and exchanges of tacit knowledge. Project teams where members are drawn from various business and functional units are used.

9.1.5 Global or Local Work Practices and HRM

Forces for standardisation are mainly internal to the multinational driven by the need for control and to sustain competitive advantage. Host governments may encourage standardisation through the transfer of foreign work practices, processes and management techniques if such moves are aligned with political and economic imperatives.

Forces for adaptation come from external constraints that the multinational confronts in its various markets. People across borders contain elements of both standardisation and adaptation and multinational transfer of managerial and HR practices both influence and inhibit convergence. A key factor here is time. Organisations are not static.

Example: In China, early entrants localised their HRM practices, however, during 1990s there seems to have been a trend towards introducing more Western HRM policies in China.

There are many cases where multinationals have successfully replicated work practices in their foreign subsidiaries through intensive training programmes designed and implemented by headquarters. This is particularly true regarding technical training for operating employees in areas where certain skills and work practices are regards as strategically essential.

Example: Japanese multinationals such as Nissan and Honda have been able to train substantial numbers of HCNs in their US, UK and European subsidiaries with reasonable success. The conduct or delivery of training programmes may have been modified to cater for local differences but the outcome is similar.

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Self Assessment

State whether the following statements are true or false:

1. Corporate identity is important to generate a feeling of belongingness among employees.
2. Mode of operation affects the MNCs ability to transfer HR practices abroad.
3. There is not connection between the number of expatriates and the transfer of multinational work practices.
4. The standardisation adaptation choice that confronts the multinational in other areas of its operations applies to the management of the global workforce.
5. Culture does not affect values and attitudes towards behaviour.
6. Corporate identity enables unity of purpose to be achieved.
7. Cultural distance also affects the degree to which work practices require adaptation.
8. Ownership and control are factors that need to be taken into consideration while MNCs opts for the standardisation of work practices.

9.2 Retaining, Developing and Retrenching Staff

Cost considerations by multinationals have resulted in development of mobile factories as they move in and out of countries as changing circumstances dictate.

Example: The US-based data technology company Seagate closed one of its Irish plants in 1997 despite having been in operation for only 1 year. Seagate repaid the Irish government the $16 million it had received in grants to establish the Irish plant instead. It increased the size of its Malaysian plant to capitalise on the fall in value of the Malaysian currency. At the time Seagate had 30% of world disk drive market, employing 108,000 people worldwide.

Unit labour costs and skilled labour are important considerations and markets that provide a large pool of highly skilled, yet relatively cheap labour are doubly attractive. India is one such market.

Example: Despite a recent slump due to the collapse of the 'dotcom' boom, the information technology industry in India is regarded as attractive owing to its workforce composition–highly educated, skilled programmers and software engineers who earn a fraction of the salaries of their US counterparts. To capitalise on this cost advantage, US firms such as IBM, Hewlett-Packard and Electronic Data Systems have outsourced software development to Indian suppliers.

Other multinationals, such as General Electric, have used the availability to speak English with accents and idioms so that US, UK and Australian customers are often unaware that their 'local' call has been diverted to a call centre in India.

Notes In the Chinese context, the role played by network connections called guanxi: dyadic personal relationships between people. These relationships bear similarities to the Western practice of networking but there are differences— guanxi are contingent upon

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conditions that this poses for Western executives. They suggest that hiring practices for key positions should take into account prospective Chinese employee's guanxi. The difficulty is being able to assess whether prospective employees have the right guanxi.

When hiring Chinese nationals for executive jobs because of their communication skills, local contacts and understanding of the domestic market, many multinationals have found that Chinese managers lack decision-making skills and are wary of taking personal initiatives. Along with job-related skills and for problem solving in high-pressure, they should have the right guanxi.

Mode of operation is a consideration for HCN employment. The attraction of an International Joint Venture (IJV) is that a more experienced local partner can assist in identifying a suitable workforce. It can use the existing human resources of the local partner, if this pool of labour is considered to be sufficient in terms of skills and productivity levels.

However, this can lead to unexpected labour costs if the local partner regards the joint venture operation as a convenient way of redeploying surplus employees who may not have the skills required. Then, the multinational have to invest heavily in the training of HCN staff in the IJV, leading to escalating training costs. The risk of poaching again is high. However, multinationals will weigh labour availability and cost against strategic imperatives.

Task You are the HR manager of an organisation. Give a detailed outline for the developing and retrenching the staff.

Self Assessment

Fill in the blanks:

9. Cost considerations by multinationals have resulted in development of …… factories.
10. India is a market with relatively …… labour.
11. The attraction of an …… is that a more experienced local partner can assist in identifying a suitable workforce.

9.3 Language Standardisation in International Business

Language is a vital tool. It is a means of communicating thoughts and ideas and it forges friendships, cultural ties, and economic relationships. Language is not only a vehicle for the expression of thoughts, perceptions, sentiments and values characteristic of a community but also represents a fundamental expression of social identity. It is the common speech which serves as a peculiar potent symbol of the social solidarity of those who speak the language. Language retention helps maintain feelings of cultural kinship.

The adoption of official bilingualism has provided the younger generation managers with tools and knowledge to excel not only at home but beyond the national borders. This has allowed them to reach for the dreams and succeed in areas they may not have otherwise. The knowledge of the English language is one of the most important tools. It is one of the international languages, a tool of communication between countries, cultural groups, various companies and organisations, communities and friends.

Language is knowledge and one of the key factors in competitiveness. Brains and knowledge creates the prosperity and growth. In an advanced industrial society in an increasingly interdependent world, the knowledge of other languages becomes indispensable. The advent of

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the Internet has changed human lives. For the last few years, millions of people across the world, who share common interests, are able to communicate with each other and exchange ideas. Not only are they able to do this due to the various technological advances, but also because they share a common language.

Language training is a desirable component if any one is moving out from his home country to abroad for handling the international assignments. As we move toward hemispheric economic integration, the knowledge of other languages of the hemisphere is becoming a highly marketable skill.

English is the language of world business, though the form of English is more "international English" than that spoken by native speakers of English. It is one of our official languages. Multinationals from English-speaking countries such as the United States, the United Kingdom, and Australia often use this fact as a reason for not considering language ability in the selection process and for not stressing language training as part of pre-departure programmes. Language skills are important in terms of task performance and cultural adjustment. Language proficiency in other country allows following advantage to MNC and expatriate:

1. The ability to speak a foreign language can improve the expatriate's effectiveness and negotiating ability.
2. It can improve manager's access to information regarding the host-country's economy, government, and market.
3. The degree of fluency required depends on the level and nature of the position that the expatriate holds in the foreign operation, the amount of interaction with external stakeholders such as government officials, clients, trade officials, as well as with host-country nationals.
4. The ability to speak the local language different from their home country was as important as cultural awareness in their ability to adapt and perform on assignment.
5. Knowledge of the host-country language can assist expatriates and family members gain access to new social support structures outside of work and the expatriate community.
6. For multinationals from non-English-speaking countries, the standardisation of information and reporting systems tends to be handled in the language of the parent's country of origin until geographical dispersal makes that problematical.
7. The multinational adopts a common company language to facilitate reporting standardisation and other control mechanisms, particularly normative control.
8. PCNs can find themselves performing as communication conduits between subsidiary and headquarters, due to their ability to speak the corporate language.
9. It gives added power to their position in the subsidiary as PCNs often have access to information that those not fluent in the corporate language are denied. A PCN fluent in the parent-company language and the language of the host subsidiary can perform a gate keeping role. It permits PCNs to have a broader outlook on their surroundings as they are able to look at issues with a broader perspective.

Culture and language are interrelated. The way we use language reflects cultural preferences for type of communicative behaviour. Culture will affect the extent to which one speaks loudly and quietly, whether use lots of "I" statements, whether choose very explicit language. Intercultural or cross-cultural pragmatics is the contrastive or comparative study of such communicative norms aiming to reach a better understanding of the cultural value or values that underpin them.

Situation or context also dictates language choice. Various terms have been coined for certain types of key expressions that are related to specific contexts or situations. These key expressions

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are useful in raising clients' awareness about the relationship between language and culture. They are expressions whose linguistic meaning is distorted because of the role they have in a specific situation: linguistic meaning versus use.

Example: When a British English speaker asks the question: how are you, s/he doesn't expect a lengthy reply about the state of the respondent's health. If an American says "let's get together some time", s/he may be saying no more than "goodbye". If a Japanese speaker says "yes" in a meeting, it is as well to understand that this is the politeness dictated by the situation and in no way indicates agreement or an undertaking to act.

Language carries with it cultural coding. Numerous problems are encountered by MNCs in adapting themselves to foreign countries cultures. Culture, colour, style, etc. have to be altered to be successful in foreign countries as they carry different meanings across borders than in the native country.

Example: White symbolises death in Japan and much of Asia; green represents danger or disease in Malaysia. Using the wrong colour in these countries might produce negative reactions.

Some product names travel poorly due to which MNCs have to face failures internationally.

Example: The gasoline company ESSO found out that its name means "stalled car" in Japan. While on the other hand, Kodak is the best example for correctly conveying the meaning internationally for its brand as this name was pronounceable everywhere but had no specific meaning anywhere.

Social norms vary greatly from country to country and it is difficult for any outsider to be knowledgeable about all of them, so local input is very vital.

Example: One firm promoted eyeglasses in Thailand with commercials featuring animals wearing glasses. In Thailand animals are considered a low form of life; humans would never wear anything worn by an animal.

The translations of an advertising message convey the concept of the original but do not precisely duplicate the original.

Example: PepsiCo learned this lesson when it discovered that its slogan "Come alive with Pepsi" was translated into German as "Come alive out of the grave with Pepsi." In Asia, the slogan was once translated as "Bring your ancestors back from the dead."

So, it is imperative for the MNCs to prepare themselves culturally before extending their operations abroad. Knowledge has to be employed to assist companies and individuals overcome challenges brought about through cross cultural differences in business. Areas in which assistance is needed may range from relocation briefings to company mergers or management techniques.

Self Assessment

Fill in the blanks:

12. Language represents a fundamental expression of social ……..
13. …… training is a desirable component if any one is moving out from his home country to abroad for handling the international assignments.

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9.4 Monitoring HR Practices Internationally

Humanism is defined in regard for people as an end in themselves, and as having a value in themselves within an organisational context. Hence the locus of value, or the worth attributed to persons in a work organisation is orientated towards those persons in themselves rather than towards organisational objectives as appropriate ends. 'Instrumentalism' is defined as a regard for people as a means to an ends (objectives) of the organisation.

Despite the complex socio-cultural concepts of people in organisations, an understanding of the way people are seen, and see themselves, in organisations, is fundamental to effective people management across different cultures. In developing effective international and cross-cultural systems, managers should learn to think outside the parochial box of HRM Developing lateral flexibility across cultures may be one approach to this.

Working across borders and cultures there is a need for lateral flexibility and to adapt work practices and organisational forms appropriately. So, the interplay of the need to differentiate across cultures and to integrate through international strategising comes to the force. This is especially the case in international joint ventures.

9.4.1 Approaches to Measuring HR Performance

How can a forward-thinking organization develop an effective performance monitoring system in the area of human resource management? According to Morgan (1992), there are three approaches.

One is to adopt a step-wise procedure, similar to the scientific method, in which meaningful and reliable variables are identified. The process begins by developing as many measures as possible, particularly in the HR areas of greatest concern. Second, measures whose potential benefit is outweighed by the expense or difficulty of data collection are eliminated. Third, systems are developed which regularly collect the necessary information, preferably devolved to line management, and a commitment is made to the time and effort needed for analysing the data and interpreting its meaning in the realm of HR strategy.

After two or three years (often the time required to realise the impact of an HR activity) it becomes possible to reduce the number of measures to four or five key indicators by eliminating those which only confirm the results of others. For example, if employee turnover, job satisfaction, absenteeism and so forth were all perfectly correlated with one another, only one of the measures is necessary; by examining this single measure a manager would know the company's performance for all the others. The relationship between performance measures is often complicated and non-linear, however, making multiple measures a virtual necessity.

Although this approach is laudable in its attempt to capture all measurable aspects of HR performance, there is the risk that the task of collecting data, analysing them and interpreting the results will be costly, time-consuming and result in no clear guidelines for action. There is also the danger of what Eccles and Nohria (1992:160) called creeping numeration, which refers to "the temptation to turn every measure deemed relevant into a crucial part of an official measurement system". Indeed, once the decision is made to expand the class of measures from a single (financial) category to three or four, and four or five measures are developed for each category, a company can quickly have twenty or more 'key' performance indicators.

Second, a recent approach to performance management involves the identification of key performance indicators that are associated with a specific HR practice, such as recruitment and selection. From this perspective the wisdom lies in keeping things simple and avoiding information overload, and the implication is that only a few measures are needed to help line managers or HR professionals gauge the current state of affairs.

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This second approach offers an appealing logic: if objectives have been defined in advance, there should be associated measures and thus no difficulty in collecting and interpreting the data. Most managers simply cannot attend to twenty measures at once let alone optimise them despite company rhetoric that may implore them to do so. In fact, imputing significance to each of these measures may only push the problem of devising a meaningful performance measurement system down to the level of each frustrated individual (Eccles and Nohria, 1992). But as Morgan (1992) points out, this method also runs the risk of being too superficial. It is not enough to know that a specific practice or activity has worked to a greater or lesser extent. To be of real benefit there must be enough information to understand why the specific outcome has occurred, and to incorporate the lessons learned.

A third approach to HR performance monitoring, one which is currently the vogue, is through the process now known as Benchmarking. Benchmarking denotes a comparison with selected performance indicators from different organisations, typically in the same industry, or with comparable organisations that are considered to be "best in class". The most obvious points of comparison are with close competitors, but some organizations have gone beyond their industry group to identify best practice wherever it can be found. Xerox, for example, where benchmarking has been credited as one of the main factors in its 1980s revival, has benchmarked railways, insurance companies and facilities that generate electric power.

Self Assessment

State whether the following statements are true or false:

14. Working across borders and cultures there is a need for lateral flexibility and to adapt work practices and organizational forms appropriately.
15. According to Morgan (1992), there are five approaches to develop an effective performance monitoring system in the area of human resource management.
16. The relationship between performance measures is often complicated and non-linear, however, making multiple measures a virtual necessity.
17. Most managers can easily attend to twenty measures at once let alone optimise them despite company rhetoric that may implore them to do so.

Traveling and living in an unfamiliar culture can be incredibly exciting, but it can also present significant challenges. Some of the differences you identify in the host culture will be obvious: language, climate, clothing, food, etc. Other differences, however, will not be obvious, and you may not notice them at first. These differences can cause feelings of uncertainty, anxiety, and frustration, as you feel cut off from the cultural cues and patterns with which you are familiar.

Remember that experiencing these stresses is a normal part of the cultural adjustment process. The best defense is educating yourself about the host culture prior to departure, recognizing the symptoms, and developing healthy strategies.

Caselet

Sumitomo Metal Industries

Sumitomo Metal Industries (SMI) was established in 1897. Today it is one of the leading companies in the Japanese steel industry although it has also diversified into construction engineering, plant engineering, systems engineering, electronics, advanced materials and biomedicines. It has a one trillion yen turnover, of which 80%

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comes from steel. Tsuda (1996) describes the extensive programme of human resource development within the context of changes that are affecting the steel industry.

Japanese views on work are changing. There has been a reduction in the workforce in manufacturing industries. The upshot of this is that young people do not show as much interest in manufacturing as they did in the past. The working environment has changed with the introduction of microelectronics and computers, which have changed models of operation. Managers have had to comply with improvement in working conditions, eliminating the three 'Ks': *kiken* (dangerous), *kitsui* (hard) and *kitanai* (filthy).

There has also been an increase in the number of ageing employees in the workforce. With a reduction in the total number on the production lines, this has interfered with the smooth transition of tasks from skilled technicians to their successors, and has affected the maintenance of high levels of technical performance. Within Sumitomo, there was therefore a requirement to meet the needs to develop an adaptable and efficient workforce.

As a result, under the guidance of its philosophy of 'valuing humanity and technology' the company has undertaken long-term, continuous and extensive educational and development programmes, from top managers down to blue-collar workers. It had already established, in 1952, an Apprentice School to provide in-company education and training for junior high school graduates of three years in "moral education and practical affairs".

Management development programmes are aimed at making the best use of the corporate organisation '4Cs' abilities: coordination, communication, creation and culture-orientation. Training programmes are also directed at the ageing workers, to increase their abilities to perform broader duties. They too are expected to 'improve morale, revitalising old workers, and to meet the demand for a reduction of working hours through multiplied skills and restructured duties'.

Questions

1. How does the concept of 'valuing humanity' in the people management policies of Sumitomo differ from concepts of human resource management as practised in your organisation, or an organisation with which you are familiar?
2. How could your organisation, or one with which you are familiar in your country, obtain the type of total commitment obtained in companies like Sumitomo?

Source: International HRM, A Cross-Cultural Approach, Terence Jackson

9.5 International Joint Ventures and HR Practices

The motives for entering into an IJV arrangement are many but a major reason is to spread risks. Success seems to depend on an ability to balance the desire and need to control the venture on the one hand and the need to maintain harmonious relations with the partner on the other hand. The factors attributed to the failure of a joint venture are mostly human-related–poor decisions, behavioural errors or unanticipated staffing events. So, an IJV presents a major management challenge, particularly so when a foreign firm has been forced into the IJV by necessity rather than choice – as is often the case in both China and India. HRM plays an important role in assisting foreign firms to achieve their goals for their Indian IJVs.

Staffing: In a complex cultural context like India, it may be more advantageous to use local managers. A major reason for HCN preference is the belief that the right Indian will know more than what an expatriate manager can learn in years on the job. The success of some foreign firms in India may be attributed to effective integration of the local IJV managers into the "global family".

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Recruitment and Selection of HCNs: Once hired, it is not easy to dismiss employees under Indian labour laws. The Industrial Disputes Act provides strict rules for layoffs and dismissals. One of the attractions of the IJV is the assumption that a more experienced local partner can assist in identifying a suitable workforce. The IJV may perhaps even use the existing human resources (its internal labour market) of the local partner, if this pool of labour is considered to be sufficient in terms of skill and productivity levels.

Compensation: Since the economic liberalisation in the early 1990s, it has become more difficult for foreign multinationals to find and retain high-quality local staff, as the rapid rise in the level of foreign and local investments in India has lead to a shortage of skilled people. This, in turn, is placing pressure on the compensation packages of qualified managers. Pressure is also being brought to bear on the minimum wage level, and this will increase the cost of labour over the longer-term.

Training and Development: International business operations place specific demands on effective training and development of PCN, TCN, and HCN staff. Training expatriates in negotiation and conflict-resolution skills are advocated to enable them to cope with, and resolve, the unexpected issues and problems inherent in both the Indian context and operating in the joint venture situation. The introduction of new production equipment and concepts such as just-in-time, quality management, and so on, require additional training. Developing and retaining the workforce so that the multinational has a pool of managerial talent to draw on is also a challenge.

A skill-based approach may contribute to improved labour productivity and better performance. Despite wage and salary increases, it is still cheaper to hire quality HCNs than employing expatriates, with the added advantages that locals are more familiar with the complexities of Indian business culture. However, staff training and development remain as important considerations.

Task Take the example of Saab-Tata joint venture and devise the changes in HR practices which this organisation must have undergone after venture.

Self Assessment

State whether the following statements are true or false:

18. The Industrial Disputes Act provides strict rules for layoffs and dismissals.
19. Since the economic liberalisation in the early 1990s, it has become easy for foreign multinationals to find and retain high-quality local staff.

Case Study

Barclaycard International: Recruitment in the Context of an Internationalisation Strategy

This case study outlines the experiences of Barclaycard International and shows how a range of HR issues have to be managed as the internationalisation process proceeds. The role of local business partners in relation to recruitment and selection activity develops, and the insights into what the central package of HR policies manages to create

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in behavioural terms in the various local cultures also becomes more sophisticated. It is worth bearing in mind that in sharing some of the detail behind recent events and placing them into a structured account, it is easy to lose the sense of dynamism, pace and excitement which surrounds such an internationalisation strategy.

Seeding Expansion

Barclaycard was established in 1966 as part of Barclays Bank PLC. Barclays Bank PLC's strategy has four medium term themes: to defend and extend UK Banking, build new international markets, grow world class global product businesses; and develop operational excellence. One of the ways in which global product businesses will grow is through the expansion of the cards and loans business. Barclaycard was the UK's first credit card and is now one of the largest global credit card businesses. It has 11.2 million retail customers in the UK, with 3.7 million cards issued internationally (up from 1.28 million cards in 2002 and 1.42 million in 2003). Barclaycard is a multi-brand credit card and consumer lending business. It is currently one of the leading credit card companies in Europe and is increasing its international presence.

Barclaycard encompasses: the Cards & Loans business mostly traded as Barclayloan, FirstPlus, Clydesdale Financial Services and Monument credit cards. Outside the UK, Barclaycard International operates in the United States, Germany, Spain, Greece, Italy, Portugal, Ireland, Sweden, Norway, France Asia-Pacific and across Africa. Barclaycard International is evolving from a domestic base and has some interesting challenges ahead in doing so.

Barclaycard International first became profitable in 2003 with profits of £4 million. After an alliance with the Standard Bank of South Africa in 2003 and launches the next year in Ireland and Portugal, by 2004 profits increased to £8 million despite the investment costs of the international expansion and acquisition. The acquisition of the US credit card issuer, Juniper Financial Corporation, was completed on 1st December, 2004. Acquiring Juniper (rebranded as Barclays USA) was part of Barclaycard International's strategy to become as meaningful a contributor to the Group as Barclaycard UK currently is by 2013. In order to do this Barclays will invest significantly in Barclaycard International.

Growth Strategy

Barclaycard International has a challenging and rapid growth strategy. If it is to be as successful as its stated ambition, the need for a truly global approach to doing business will become ever more apparent. It employs around 3000 staff across its portfolio of businesses, of which just 15% are based in the UK. As new international operations are created either as a consequence of joint ventures (JV) acquisitions, or through organic growth this number the number of staff will continue to increase while the relative % of staff based in the UK will reduce. The rapid growth of this business brings its own challenges for the HR function.

The HR Director and HR Business Partners support the Board Directors of Barclaycard International and ensure an end to end HR service is provided to employees in every location. As a HR Business Partner the challenge varies in each country but always includes the question of how to ensure rigour and consistency across operations in very different cultures, business markets and labour markets.

One area of focus for the HR Director for Barclaycard International is to put a platform of people management processes in place that bring sufficient stability, governance and control , ensure flexibility in global and local decisions and use this platform to enable rapid future expansion. This means turning what has historically been a UK-centric

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operation into one guided by a global mindset. The broader agenda requires the establishment of processes, structures and frameworks that provide generic guidance and clarity for country operations but have sufficient flexibility to accommodate cultural, legal and social factors.

In order to achieve this, the primary agenda items for the HR team in 2006 include, International Resourcing, International Mobility, Talent acquisition and development and Global policies and frameworks:

A Global Approach to International Resourcing

One of the key challenges facing Barclaycard International is how to resource and then transfer capability globally, either within an existing business or during start up and subsequent building of a local business. To enable Barclaycard to recruit globally a range of preferred recruitment suppliers are used from large global recruitment agencies to specialised local firms: Given the nature of country operations, historically relationships with these agencies and suppliers have largely been handled by local HR Business Partners. The HR community is building up its networks across these agencies and ensuring that it learns how best to manage the different types of agency and understand the true global capability of suppliers as well as the availability of skills that are available in each labour market.

To support the movement of internal employees, HR Business Partners now make sure that all employees are aware of job opportunities in other countries. There is a common site to share every vacancy between Hamburg, Zaragoza and Dublin and a frequent exchange of information between country HR Business Partners. It is proving successful in sourcing applicants and will be extended to all locations in due course.

Recruitment of International Resourcing Manager

Another consequence of rapid international expansion has been the need to create a dedicated International Resourcing Business Partner. The new role has to act as a support mechanism for HR Business Partners and business leaders in the acquisition of top talent from the market. There will always be a significant proportion of recruitment activity that is nationally focused. This requires decisions about which resourcing activities need strategic and central oversight, and which can be left to the country-based HR Business Partners. On the recruitment of the International Resourcing Manager, they will look to

- Negotiate global preferred supplier arrangements for use of head-hunters and research institutions
- Develop the employee value proposition and employment brand across countries
- Advise on which processes must be run globally and which should best operate under local context
- Provide a challenge to all sites by signalling sources of best practice
- Ensuring appropriate geographical acquisition and use of international talent.

Central Operation

Barclaycard's call centre in Ireland builds the central platform to enable the business to expand. It now employs 360 people, up from a base of only 10 people working in-country in 1997. During this time there has been remarkable change in terms of international recruitment. Barclaycard's initial intention was to use Ireland to support non-UK operations. Eight countries are now served out of the Dublin centre, including Ireland, Italy, Spain,

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France, Germany, Portugal, Greece, and Botswana. Dublin was chosen as an early location because of the nature of the role, the employee base, and the City's labour market. As a population there is an intention to stay in the country for around 12 to 18 months. They will speak (and are hired for) their mother tongue in the job and markets they serve, but the social interactions in work help improve their English language. The real challenge is the 12–18 month timeframe as this has driven high levels of attrition.

Spain is an operation that has recently been moved "in-country". 18 months ago it was served by the Dublin centre, but on the Group acquisition of Banco Zaragozano Barclaycard International took over responsibility for the credit card activity and launched a new contact centre in the country. Because Dublin acted as the central operation, Barclaycard offered employees the chance to move from Dublin to Spain. Around 35 staff moved from Ireland back to Spain.

Mobility Contract

In order to enable global movement within Barclaycard International, the HR team has devised an international mobility framework. Rapid global expansion requires the business to be able to deploy skills and experience in a multitude of countries at short notice. This cannot always be achieved at pace, through local recruitment, so expatriation of current employees is often the best solution. However, employee mobility and the increasing cost and complexity of expatriating individuals need to be considered. The recently devised framework seeks to secure talented employees on to global contracts for which they are paid a premium to be globally mobile. Some "light" expatriation benefits have been added as a core component of this framework. The concept is now being tested in Barclaycard International.

Process of Expatriation and Repatriation

There are a number of expatriates on international secondments (these may be drawn from either Barclaycard or the broader Barclays Group). These individuals provide functional expertise and leadership skills to the various countries. Barclaycard International typically use expatriates to either work with potential business in new countries to support the growth strategy or to provide specialist expertise into other parts of the Barclaycard operations internationally.

The HRBP is key to the set up of any assignment. The HRBP will work with the business to, build up a robust business case, help identify employees and to work with the line manager and individual/family to ensure all steps of the expatriation process are clear. To do this Barclays has an International Assignments Services (IAS) team which support the HRBP, the line manager of both home and host country and the individual employee. The IAS are located within key global regions and are in a strong position to provide key financial and cost data to all parties, and help facilitate the move once agreed.

The HRBP in the host and home country will track the employee while on assignment and ensure the employee is kept up to date with key information, and to ensure the key skills obtained on assignment are captured for talent and succession plan purposes. At the end of the assignment the HRBP will work with the business and individual to secure either a role back in the home country, an extension to current assignment or an alternative assignment.

Culture Awareness Modules and Profiles

Another key priority for the HR function is to define and support a global mindset amongst the senior leadership team. As the business continues on a dynamic growth curve, the

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business reflects a more global than a European focus. Two key initiatives have been developed to help and support the senior leadership team lead and embed a global culture.

The first is awareness building amongst the Senior Leadership community. A series of workshop modules have been created to help facilitate the understanding of cultures Barclaycard International work in or potentially could expand into in the near future. The workshops have been based on creating an extensive range of country profiles through external research, knowledge from Barclaycard's employees and the support from the IAS team. The workshops will help raise each individual's understanding of their own personal behaviours and will help each employee understand in greater detail the cultural challenges faced in each country.

Secondly, building cross cultural training interventions. These may include, taster sessions run by nationals or returning employees who have been working in the county. The key is to link the activities successfully into the global induction programme. In addition, personal development can be guided towards areas that will add real global value e.g. language courses.

Talent Acquisition and Development

The international resourcing challenge is supported by talent management tools and techniques. Many of these processes operate at Barclays group level and there is significant potential for movement between international banking operations in Barclays and Barclaycard International. Talent is categorised as a priority for Barclaycard International. To concentrate on developing talent in top leadership roles, moving then from those with the potential for a handful of senior cross-Barclays roles, through to those with the potential to reach the top 450 leadership roles, and then to a broader population with business talent. Over last four years Barclaycard has evolved the identification of talent. In addition to looking for both potential and performance, the "wow" factors have been included Integrity and performance are minimum requirements for those rated as Organisations often see succession planning and talent identification as separate processes but in Barclays they are increasingly integrated and long term incentives are tied to the capabilities identified.

Internally, HR Business Partners facilitate twice yearly reviews of talent, agree who is on the talent plan and agree with the business the development opportunities open to them. This could vary from courses to development roles in other cultures. They have fairly robust information about who has done what, where, and with what desires for international mobility. Where they do not have the skills in place they aim to move people into arenas that will develop these skills.

Externally, Barclaycard uses the top grading approach to hiring senior leaders. The role of the HRBP and the business is to find the top 10% of candidates in their field of expertise on a global basis, known as "A" players. In addition candidates are required to have an international mindset. Alignment with Barclaycard values is important, and candidates need to have a history of international working and given the nature of the sector, need to have been involved in stretching roles, such as international mergers and acquisitions. However, when resourcing rapid international expansion, do you start to recruit people now for the markets that you want to move into, or do you wait until you are in-market or near-market? The challenge is to "resource ahead of the curve". One of the approaches taken at Barclaycard International is to invest in market mapping. This has been done in domestic markets for a while but they now use research agencies and head-hunters to map a wider range of geographical labour markets by researching the people working in similar roles to the ones that will be needed.

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Global Policies and Frameworks

Global policies and frameworks are required to ensure consistency, rigour, global governance and risk management, however these are challenging given the cultural, legal and social environments Barclaycard International operates its global processes on an exception basis – such that even if the activity is culturally uncomfortable, the policies establish explicit guidance and global protocols that make it clear what must be done, unless it is illegal to do so. There are a number of Group-wide global standards to which Barclaycard International must adhere. One such example is the new global pre-employment screening policy, a subset of the global resourcing policy. With the increasing need for control monitoring processes to be well established (Sarbanes Oxley), Barclaycard International needs to manage its business risk by conducting rigorous levels of due diligence on potential employees. Certain requirements of the new Group-framework cannot be met due to legal constraints and others are difficult to meet due to local cultural and social constraints which cannot be ignored.

Barclaycard International has a challenging and rapid growth strategy. If it is to be as successful as its stated ambition, the need for a truly global approach to doing business will become ever more apparent. In support of this, the HR function has an exciting, interesting and challenging agenda to deliver in the next few years.

Questions

1. Explain to the rest of the group how, in what ways, developments in the following help Barclaycard International's HR function assist the process of internationalisation:
   (a) Expatriate management
   (b) The process of creating new in-country operations
   (c) Changes to the supporting HR processes
   (d) The changing role of HR Business Partners and other central co-ordinating roles
2. Looking across the case study, and the sequence of HR issues that have to be managed during the internationalisation process, is there a pattern to the decisions that have to be made as to which HR processes need to be managed at a global level or co-ordinated in country?
3. What tensions will exist between local Business Partners and central co-ordinating roles in managing talent on a global basis? Have they got the balance of responsibilities right?
4. What are the implications of using a multi-cultural workforce in a domestic setting to help assist subsequent international expansion?

Source: http://www.lums.lancs.ac.uk/files/10045.pdf

9.6 Summary

- Standardisation of work practices involves behaviour modification through corporate training programmes, staff rotation, rewards and promotion, most of which fall into ambit of the human resource function.
- Ownership and control are factors that need to be taken into consideration while MNCs opts for the standardisation of work practices.
- Mode of operation is a consideration for HCN employment.

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- English is automatically the chosen corporate language.
- Language skills become an important aspect to do business internationally.
- The ability to speak the local language different from their home country was as important as cultural awareness in their ability to adapt and perform on assignment.
- Language carries with it cultural coding.
- Due to difference in the culture, there is variation in HR practices across globe.

9.7 Keywords

Brownfield: When the multinational acquires an existing local firm as part of the establishment of a local operation, but the multinational effectively replaces many of the resources and capabilities.

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

Expatriate: It is a person temporarily or permanently residing in a country and culture other than that of the person's upbringing or legal residence.

Franchising: It is the method of practicing and using another persons business philosophy.

Instrumentalism: It is defined as a regard for people as a means to an ends of the organisation.

Intercultural Pragmatics: It is the contrastive or comparative study of such communicative norms aiming to reach a better understanding of the cultural value.

Retrenchment: It is a corporate-level strategy that seeks to reduce the size or diversity of an organisation's operations.

Subsidiary: A company for which a majority of the voting stock is owned by a holding company.

9.8 Review Questions

1. Critically analyse the HR practices in Indian organisations giving examples.
2. "Joint ventures abroad results in the intermixing of the different culture groups." Do you agree? Justify.
3. "Language and culture of a country are interrelated." Justify the statement giving suitable examples.
4. Examine the differences in the HR practices followed in Indian companies with those of US and China. Give examples.
5. Examine the factors that play a key role in retaining and retrenching the staff abroad. Give examples in support of your answer.
6. Critically examines the factors that led to the standardisation of the work practices.
7. Analyse the relationship between the countries culture to the organisational environment, discussing the effect of both on employees.
8. "HRM strategies are not solely determined by national cultural differences." Comment on the statement.
9. Analyse the Japanese HRM management system giving examples.
10. Does language has a significant effect on doing the business internationally? Justify.

Notes

Answers: Self Assessment

1.	True	2.	True
3.	False	4.	True
5.	False	6.	True
7.	False	8.	True
9.	Mobile	10.	Cheap
11.	International Joint Venture	12.	Identity
13.	Language	14.	True
15.	False	16.	True
17.	False	18.	True
19.	False		

9.9 Further Readings

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Unit 10: International Industrial Relations

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Objectives

After studying this unit, you will be able to:

- Define factors affecting differences in trade unions structure
- Discuss key issues in International industrial relations
- Describe the responses of trade unions to multinational, regional integration
- Identify EU and NAFTA

Introduction

It is difficult to compare industrial relations systems and behaviour across national boundaries; a labour relations concept may change considerably when translated from one industrial relations context to another. The concept of collective bargaining in the United States means negotiations between a labour union local and management; in Sweden and Germany it refers to negotiations between an employers' organisation and a trade union at the industry level. Cross-national differences also emerge as to the objectives of the collective bargaining process and the enforceability of collective agreements.

Human resource management practices result in creation of relations among employees, management and trade unions. Such relations are called industrial relations. Similarly the HRM policies and practices of international business with regard to different country nationals (PCN, TCN and HCN) result in relations among management of multinational corporations and other kind of employees. Such relations are called international industrial relations. These relations play a crucial role in strategy formulation and implementation in international business either by enabling or disabling MNCs in the process of doing business in various countries.

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10.1 Trade Unions and International Industrial Relations

Before moving to trade unions and International industrial relations, let us first the basics of industrial relations. ILO defines industrial relations, "Industrial relations deal with either the relationship between the state and employers' and workers' organisations or the relation between the occupational organisations themselves". International industrial relations deals with the complex relationships among employers employing foreign national, employees of different nationalities, home and host country governments and trade unions of the organisations operating in various countries and their national and international federations.

10.1.1 Factors that Influence Industrial Relations

Factors influencing the industrial relations are as follows:

(i) ***Institutional factors:*** Home and host country government policy, labour legislation, voluntary courts, collective agreement, employee courts, employers' federations, social institutions like community, caste, creed, system of power status etc. in various countries form Institutional factors.

(ii) ***Economic factors:*** Include economic organisation, like capitalist, communist, mixed etc. , the structure of labour force, demand for and supply of labour force etc.

(iii) ***Technological factors:*** Include mechanisation, automation, rationalisation, computerisation, information technology etc.

(iv) ***Social and Cultural factors:*** Include population, religion, customs and traditions of people, ethnic groups, cultures of various groups of culture etc.

(v) ***Political factors:*** Include political system in the country, political parties and their ideologies, their growth, involvement in trade unions etc.

(vi) ***Governmental factors:*** Include host and home country governmental policies like globalisation policies, industrial policy, economic policy, labour policy, export policy, migration and immigration policies etc.

Example: Globalisation policies in countries like Bulgaria brought dramatic changes in MNCs in that country.

Early involvement of Trade Unions is advised when MNCs plan to take over earlier Public enterprises where there is a tradition of trade unions.

10.1.2 Actors of Industrial Relations

Industrial societies necessarily create industrial relations defined as the complex of interrelations among workers, management and the government. Three major participants or factors of industrial relations, thus, are workers and their organisations, management and the government.

1. ***Workers and their organisations:*** The total worker plays an important role in industrial relations. The total worker includes working age, educational and family background, psychological factors, social background, culture, skills, attitude towards others' work etc. Workers' organisations, prominently known as trade unions, play major role in industrial relations. The main purpose of trade unions is to protect the workers' economic interests through collective bargaining and by bringing pressure on the management through economic and political tactics. Trade union factors include leadership, finances, activities etc.

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2. *Employers and their organisations:* Employers employ expatriates, pay salaries and various allowances, provide a variety of benefits, regulate the working relations through various policies, rules and regulations and by enforcing labour laws of the country. They expect workers to follow rules and regulations, contribute their resources to the maximum to achieve organisational goals and mission. The difference between demands of the workers and employers results in industrial conflict. Normally employers' power is higher than that of their workers. But their power is undermined when compared to that of trade unions. Employers form their organisations to equate (or excel) their bargaining power with that of the trade unions. These organisations protect the interest of the employer by pressurising the trade union and the government.

3. *Government:* Government plays a balancing role as a custodian of the nation. Government exerts its influence on industrial relations through its labour policy, industrial relations policy, implementing labour laws, the process of conciliation adjudication by playing the role of a mediator etc. It tries to regulate the activities and behaviour of both employees' and employers' organisations, individual and group organisations.

Definition of Trade Union

A trade union is a continuing long term association of employees, formed and maintained for the specific purpose of advancing and protecting the interests of the members in their working relationship. Some argue that it also covers employers' organisations and friendly societies.

10.1.3 Factors for Differences in Trade Unions Structure

Several factors are identified that may underlie the historical differences in the structure of the trade unions in various countries:

1. The mode of technology and industrial organisation at critical stages of union development;
2. Methods of union regulation by government;
3. Ideological divisions within the trade union movement;
4. The influence of religious organisations on trade union development; and
5. Managerial strategies for labour relations in large corporations.

Table 10.1: Trade Union Structure in Western Societies

Australia	general, craft, industrial, white-collar
Belgium	industrial, professional, religious, public sector
Canada	industrial, craft, conglomerate
Denmark	general, craft, white-collar
Finland	industrial, white-collar, professional and technical
Germany	industrial, white-collar
Great Britain	general, craft, industrial, white-collar, public sector
Japan	enterprise
The Netherlands	religious, conglomerate, white-collar
Norway	industrial, craft
Sweden	industrial, craft, white-collar and professional
Switzerland	industrial, craft, religious, white-collar
United States	Industrial, craft, conglomerate, white-collar

Source: Industrial Relations: Origin and Development (1986) p. 79

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Union structures differ considerably among Western countries. These include industrial unions, which represent all grades of employees in an industry; craft unions, which are based on skilled occupational grouping across industries; conglomerate unions, which represent members in more than one industry; and general unions, which are open to almost all employees in a given country. Enterprise unions are common in Asia-Pacific nations, although there are national variations in their functions, and in the proportion of enterprise unions to total unions.

The lack of familiarity of multinational managers with local industrial and political conditions has sometimes needlessly worsened a conflict that a local firm would have been likely to resolve. Multinationals are recognising this shortcoming and admitting that industrial relations policies must be flexible enough to adapt to local requirements.

Caution Trade unions limit the strategic choices of multinationals in three ways:

1. By influencing wage levels to the extent that cost structures may become uncompetitive.
2. By constraining the ability of multinationals to vary employment levels at will.
3. By hindering or preventing global integration of the operations of multinationals.

Let us explore in detail, how trade union limits on MNC's strategic choices:

1. ***Influencing Wage Levels:*** Although the importance of labour costs relative to other costs is decreasing, labour costs still play an important part in determining cost competitiveness in most industries. The influence of unions on wage levels is important. Multinationals that fail to successfully manage their wage levels will suffer labour cost disadvantages that may narrow their strategic options.
2. ***Constraining the Ability of MNCs to Vary Employment Levels at Will:*** For many MNCs operating in Western Europe, Japan, and Australia, the inability to vary employment levels at will is more serious problem than wage levels. Many countries now have legislation that limits considerably the ability of firms to carry out plant closure, redundancy, or layoff programmes unless it can be shown that structural conditions make these employment losses unavoidable. Plant closure or redundancy legislation in many countries also frequently specifies that firms must compensate redundant employees through specified formulae such as two weeks' pay for each year of service. In many countries, payments for involuntary terminations are rather substantial, especially in comparison to those in the United States.

   Unions influence this process in following two ways:

   (a) By lobbying their own national governments to introduce redundancy legislation,

   (b) By encouraging regulation of MNCs by international organisations such as the Organisation for Economic Cooperation and Development (OECD).

   Multinational managers who do not take these restrictions into account in their strategic planning may well find their options severely limited.
3. ***Preventing Global Integration of MNC Operations:*** MNCs make a conscious decision not to integrate and rationalise their operations to the most efficient degree because to do so could cause industrial and political problems.

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Example: General Motors is an example of this "sub-optimising of integration." GM was alleged in the early 1980s to have undertaken substantial investments in Germany (matching its new investments in Austria and Spain) at the demand of the German metalworkers' union (one of the largest industrial unions in the Western world) in order to foster good industrial relations in Germany.

Union influence delays the rationalisation and integration of MNCs' manufacturing networks and increases the cost of such adjustments. But in automobiles industries at least, it permanently reduces the efficiency of the integrated MNC network.

Therefore, treating industrial relations as incidental and relegating them to the specialists in various countries, is inappropriate. In the same way as government policies need to be integrated into strategic choices, so do industrial relations.

Self Assessment

Fill in the blanks:

1. International industrial relations play a crucial role in …… formulation and implementation in international business.
2. …….. factors include home and host country government policy, labour legislation, voluntary courts, collective agreement, employee courts, employers' federations, social institutions.
3. ……. factors that affect Industrial relations, include mechanisation, automation, rationalisation, computerisation, information technology etc.
4. Three major participants or factors of industrial relations are workers and their organisations, management and the ……..
5. A ……. is a continuing long term association of employees, formed and maintained for the specific purpose of advancing and protecting the interests of the members in their working relationship.
6. ……. divisions within the trade union movement factors are identified that may underlie the historical differences in the structure of the trade unions.
7. Multinationals that fail to successfully manage their wage levels, suffer …… disadvantages that may narrow their strategic options.

10.2 Key Issues in International Industrial Relations

Because national differences in economic, political, and legal systems, there are different industrial relations systems across countries, so, MNCs delegate the management of industrial relations to their foreign subsidiaries. A policy of decentralisation does not keep corporate headquarters from exercising some coordination over Industrial relations strategy. Corporate headquarters will become involved in or oversee labour agreements made by foreign subsidiaries because these agreements may affect the international plans of the firm and/or create precedents for negotiations in other countries.

Example: The U.S. firms are less to recognise trade unions, preferred not to join employers associations, had more highly developed and specialised personnel departments at plant level, and tended to pay higher wages and offer more generous employee fringe benefits than local firms.

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Multinational headquarters involvement in industrial relations is influenced by several factors as detailed below:

1. ***The Degree of Inter-subsidiary Production Integration:*** A high degree of integration was found to be the most important factor leading to the centralisation of the Industrial relations function within the firms. Industrial relations throughout a system become of direct importance to corporate headquarters when transnational sourcing patterns have been developed; that is, when a subsidiary in one country relies on another foreign subsidiary as a source of components or as a user of its output. A coordinated industrial relations policy is one of the key factors in a successful global production strategy.

2. ***Nationality of Ownership of the Subsidiary:*** There are differences between European and U.S. firms in terms of headquarters involvement in industrial relations. U.S. firms tend to exercise greater centralised control over industrial relations than do British or other European firms. U.S. firms tend to place greater emphasis on formal management controls and a close reporting system to ensure that planning targets are met. The foreign-owned multinationals in Britain prefer single-employer bargaining and are more likely to assert managerial prerogative on matters of labour utilisation. U.S. – owned subsidiaries to be much more centralised in industrial relations decision-making than British-owned. This is due to the more integrated nature of U.S. firms and the more ethnocentric managerial style of U.S. firms.

3. ***International Human Resource Management Approach:*** The various international human resource management approaches utilised by multinationals have implications for international labour relations. An ethnocentric predisposition is more likely to be associated with various forms of industrial relations conflict. A geocentric firm will bear more influence on host-country industrial relations systems, due to their greater propensity to participate in local events.

4. ***MNC Prior Experience in Industrial Relations:*** European firms have tended to deal with labour unions at industry level rather than at firm level. The opposite is more typical for U.S. firms. In the United States, employer associations have not played a key role in industrial relations system and firm-based industrial relations policies are the norm.

5. ***Subsidiary Characteristics:*** A number of subsidiary characteristics to be relevant to centralisation of industrial relations:

   (a) Subsidiaries that are formed through acquisition of well established indigenous firms tend to be given much more autonomy over industrial relations than are greenfield sites set up by a multinational firm.

   (b) Greater intervention would be expected when the subsidiary is of key strategic importance to the firm and the subsidiary is young.

   (c) Where the parent firm is a significant source of operation or investment funds for the subsidiary, that is, where the subsidiary is more dependent on headquarters for resources, there will tend to be increased corporate involvement in industrial relations and human resource management.

   (d) Poor subsidiary performance tends to be accompanied by increased corporate involvement in industrial relations. Where poor performance is due to industrial relations problems, multinationals tend to attempt to introduce parent-country industrial relations practices aimed at reducing industrial unrest or increasing productivity.

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6. ***Characteristics of the Home Product Market:*** An important factor is the extent of the home product market. If domestic sales are large relative to overseas operations, it is more likely that overseas operations will be regarded by the parent firm as an extension of domestic operations. Lack of a large home market is a strong incentive to adapt to host-country institutions and norms. Since the implementation of the Single European Market in 1993, there has been growth in large European-scale companies that centralise management organisation and strategic decision-making.

7. ***Management Attitudes towards Unions:*** Knowledge of management attitudes concerning unions may provide a more complete explanation of multinational industrial relations behaviour than could be obtained by relying solely on a rational economic model. Thus, management attitudes should also be considered in any explanation of managerial behaviour along with such factors as market forces and strategic choices. This is of particular relevance to U.S. firms, since union avoidance appears to be deeply rooted in the value systems of American managers.

Worldwide trade union membership has fallen over the past decade due to economic factors such as reduced public sector employment, reduced employment in manufacturing industries as a share in total employment, and increased competition. It is also associated with decentralisation of industrial relations to business unit level, changes in governance, and legislative changes.

Example: The sharpest drop in union density (almost 36% over the past decade) has been in central and eastern Europe, and may be explained by political and economic changes associated with the dissolution of the Soviet bloc and the end of compulsory union membership. Union membership decline is also linked to the introduction of new forms of work organisation, globalisation of production, and changes in workforce structure.

Industrial disputes is the another key issue in international industrial relations. Strike-proneness was measured via three variables – strike frequency, strike size, and strike duration. There was no difference across the two groups of firms with regard to strike frequency, but multinational subsidiaries did experience larger and longer strikes than local firms. This difference indicates that foreign-owned firms may be under less financial pressure to settle a strike quickly than local firms – possibly because they can switch production out of the country.

International industrial relations are influenced by a broad range of factors. General statements cannot be applied to the organisation of the industrial relations function within MNCs. Rather, different MNCs adopt different industrial relations strategies in relation to the environmental factors peculiar to each firm.

Self Assessment

State whether the following statements are true or false:

8. Strikes are the major issues in the international IR.

9. International IR is almost similar everywhere in world without any significant differences.

10. A policy of decentralisation does not keep corporate headquarters from exercising some coordination over Industrial relations strategy.

11. A high degree of integration was found to be the most important factor leading to the centralisation of the Industrial relations function within the firms.

12. A geocentric firm has to bear less influence on host-country industrial relations systems.

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Caselet

MNCs and Trade Union

Trade unions' attitudes towards MNCs and responses to their impact on collective bargaining vary. In some countries, especially in the NMS as well as Ireland, the Netherlands and the UK, trade unions have a generally positive view of MNCs and welcome the inflow of foreign investment. In Poland, trade unions have in some cases been willing to sign special deals – in particular no-strike agreements - in order to attract investment, especially from the US and Japanese companies, echoing similar practices in the 1980s in the UK. While the potential for employment creation is a common motivation, a frequent additional justification in the NMS is the expectation that foreign-owned companies might transfer into local industrial relations environments their west European social dialogue and employee participation practices. Nevertheless, research studies raise some doubts in this respect, as industrial relations transfers from the West seem to be the exception rather than rule, and contingent on rather specific conditions.

By contrast, trade unions in some west European countries express negative opinions about MNCs. In Belgium, the unions criticise MNCs for their tendency towards more conflict-prone industrial relations, in addition to excessive flexibility and remote management structures. In Sweden, meanwhile, trade unions are critical of MNCs' aims to further decentralise collective bargaining and in the industrial sector have successfully opposed further movement in this direction. Elsewhere, trade unions have not necessarily favoured the decentralisation of bargaining, but have accommodated pragmatically such developments.

Source: http://www.eurofound.europa.eu/eiro/studies/TN0904049s/tn0904049s_7.htm

10.3 Response of Trade Unions to Multinational, Regional Integration

Trade union leaders consider the growth of multinationals as a threat to the bargaining power of labour because of the considerable power and influence of large multinational firms. MNCs are neither uniformly anti-union nor omnipotent and monolithic bureaucracies, their potential for lobbying power and flexibility across national borders create difficulties for employees and trade unions endeavouring to develop countervailing power.

There are several ways in which MNCs have an impact on trade union and employee interests. Following are the seven characteristics of MNCs as the source of labour unions' concern about multinationals:

1. ***Formidable financial resources:*** This includes the ability to absorb losses in a particular foreign subsidiary that is in dispute with a national union and still an overall profit on worldwide operations. Union bargaining power may be threatened or weakened by the broader financial resources of a multinational. It is true when multinational has adopted practices of transnational sourcing and cross-subsidisation of products or components across different countries. The economic pressure which a nationally based union can exert upon a multinational is certainly less than would be the case if the company's operations were confined to one country.

2. ***Alternative sources of supply:*** This may take the form of an explicit "dual sourcing" policy to reduce the vulnerability of the multinational to a strike by any national union. Also,

temporary switching of production in order to defeat industrial action has been utilised to some extent in the automotive industry.

3. ***Ability to move production facilities to other countries:*** For employees and trade unions, job security may be threatened if a multinational seeks to produce abroad what could have, or previously has been manufactured domestically. National relative advantages provide MNCs with choice as to location of units.

Example: Within the EU, multinational management is locating skill-intensive activities in countries with national policies promoting training and with relatively high labour costs. Conversely, semi-skilled, routine activities are being located in countries with lower labour costs.

Threats by MNCs to reorganise production factors internationally with the accompanying risk of plant closure or rationalisation will have an impact on management–labour negotiations at a national level. The technical and economic investments would reduce a multinationals propensity to relocate facilities.

4. ***Remote locus of authority:*** It refers to the corporate head-office management of a multinational firm. While many multinationals report decentralisation and local responsiveness of HRM and industrial relations, but trade unions and works councils have reported that the multinational decision-making structure is opaque and the division of authority obscured. Employee representatives may not be adequately aware of the overall MNC organisational strategy and activities.

5. ***Production facilities in many industries:*** Most multinationals operate in many product lines to diversify their risk and production facilities.

6. Superior knowledge and expertise in labour relations.

7. ***The capacity to stage an "investment strike":*** When the multinational refuses to invest any additional funds in a plant, thus ensuring that the plant will become obsolete and economically uncompetitive.

Trade unions claim that they have difficulty accessing decision-makers located outside the host country and obtaining financial information. Misinformation has been central to the management strategy of using potential investment or disinvestment in seeking changes in certain organisations.

Example: In companies such as Heinz, Ford, Gillette, and General Motors, workers have established that they had on occasions been misinformed by management as to the nature of working practices in other plants.

Response of trade unions to multinationals has been threefold:

1. To form International Trade Secretariats (ITSs)

2. To lobby for restrictive national legislation

3. To try and achieve regulation of multinationals by international organisations.

1. ***International Trade Secretariats (ITSs):*** There are fifteen ITSs, which function as loose confederations to provide worldwide links for the national unions in a particular trade or industry (example, metals transport and chemicals). The secretariats have mainly operated to facilitate the exchange of information.

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One of the fastest growing of the ITSs is the International Federation of Commercial, Clerical, Professional, and Technical Employees (generally known by its French initials, FIET), which is focused on the service sector. The long-term goal of each ITS' is to achieve transnational bargaining with each of the multinationals in its industry. Each ITS' has followed a similar programme to achieve the goal of transnational bargaining. The elements of this program are:

(a) Research and information

(b) Calling company conferences

(c) Establishing company councils

(d) Companywide union-management discussions

(e) Coordinated bargaining

Overall, the ITS have met with limited success the reasons for which attribute to:

(a) The generally good wages and working conditions offered by multinationals.

(b) Strong resistance from multinational firm management.

(c) Conflicts within the labour movement.

(d) Differing laws and customs in the industrial relations area.

2. ***Lobbying for Restrictive National Legislation:*** On a political level, trade unions have for many years lobbied for restrictive national legislation in United States and Europe. The motivation for trade unions to pursue restrictive national legislation is based on a desire to prevent the export of jobs via multinational investment policies.

Example: In the United States, the AFL-CIO has lobbied strongly in this area. A major difficulty for unions when pursuing this strategy is the reality of conflicting national economic interests. In times of economic downturn, this factor may become an insurmountable barrier for trade union officials.

3. ***Regulation of MNCs by International Organisation:*** Trade unions exert influence over multinationals via international organisations and they have met with some success. Through trade union federations such as the European Trade Union Confederation (ETUC) and the International Confederation of Free Trade Unions (ICFTU), the labour movement has been able to lobby the International Labour Organisation (ILO), the United Nations Conference on Trade and Development (UNCTAD), the Organisation for Economic Cooperation and Development (OECD), and the European Union (EU). The ILO has identified a number of workplace-related principles that should be respected by all nations:

(a) Freedom of association,

(b) The right to organise and collectively bargain,

(c) Abolition of forced labour, and

(d) Non-discrimination in employment.

In 1977, the ILO adopted a code of conduct for multinationals which influential in the drafting of OECD guidelines for multinationals. These voluntary guidelines cover disclosure of information, competition, financing, taxation, employment and industrial relations, and science and technology.

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Notes A key section of OECD guidelines is the umbrella or chapeau clause that precedes the guidelines themselves. This clause states that MNCs should adhere to the guidelines within the framework of law, regulations and prevailing industrial relations and employment practices, in each of the countries in which they operate. Employers have understood the chapeau clause means compliance with local law superseding the guidelines, while trade unions have interpreted this clause to mean that the guidelines are a supplement to national law. The implication of this interpretation is significant: a firm could still be in violation of the OECD guidelines even though its activities have complied with national law and practice. Given the ambiguity of the chapeau clause and the fact that the OECD guidelines are voluntary, it is likely that this issue will remain controversial.

Task Critically analyse the international unions in Germany and India.

10.3.1 Regional Integration

Regional integration is a process in which states enter into a regional agreement in order to enhance regional cooperation through regional institutions and rules. Regional integration is association of states based upon location in a given geographical area, for the safeguarding or promotion of the participants, an association whose terms are fixed by a treaty or other arrangements. It is a worldwide phenomenon of territorial systems that increase the interactions between their components and create new forms of organisation, co-existing with traditional forms of state-led organisation at the national level.

It is the joining of individual states within a region into a larger whole. The degree of integration depends upon the willingness and commitment of independent sovereign states to share their sovereignty. Its objectives could range from economic to political although it has become a political economy initiative where commercial purposes are the means to achieve broader socio-political and security objectives. Regional integration have often focused on removing barriers to free trade in the region, increasing the free movement of people, labour, goods, and capital across national borders, reducing the possibility of regional armed conflict.

Regional integration initiatives should fulfil following important functions:

1. the strengthening of trade integration in the region
2. the creation of an appropriate enabling environment for private sector development
3. the development of infrastructure programmes in support of economic growth and regional integration
4. the development of strong public sector institutions and good governance
5. the reduction of social exclusion and the development of an inclusive civil society
6. contribution to peace and security in the region
7. the building of environment programmes at the regional level
8. The strengthening of the region's interaction with other regions of the world

European Union (EU): Regional integration such as the development of the European Union (EU) has brought significant implications for international industrial relations. In the Treaty of

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Rome (1957), some consideration was given to social policy issues related to the creation of the European Community. In the EU, the terms social policy or social dimension, are used to cover a number of issues including labour law and working conditions, aspects of employment and vocational training, and social security.

The Social Charter of the Council of Europe came into effect in 1965. In 1987, the major objective of the implementation of the Single European Act was to establish the Single European Market (SEM) on December 31, 1992, in order to enhance the free movement of goods, money, and people within the SEM. The social dimension aims to achieve a large labour market by eliminating the barriers that restrict the freedom of movement and the right of domicile within the SEM. The European Community Charter of the Fundamental Social Rights of Workers (often referred to simply as the Social Charter) was introduced in 1989, and has guided the development of social policy in the 1990s (EC, 1990).

The Social Chapter in the Treaty of Amsterdam opens with a general statement of objectives. It then sets out the objectives for the E.U.: to support and complement the activities of the Member States in a number of listed areas. These include improvement of working conditions and of the working environment in the interests of workers, integration of persons excluded from the labour market, and equality of opportunity, and at work, between men and women. However, the Treaty excludes matters of pay, the right of association, and the right to strike or to lock out.

The European Commission department responsible for social policy is known as Directorate-General V (often abbreviated to 'DG V').

Notes ***Introduction:*** Based in Brussels and Luxembourg DG V is the European Commission department responsible for social policy. It is made up of six directorates responsible for different areas of social policy.

Directorate General

Directorate A: is responsible for employment policies, labour market policies, employment services (eures), and local development and re-adaptation.

Directorate B: is responsible for policy development of the European Social Fund, information on the Fund, assessment of the political impact of the Fund, the Community initiatives, technical assistance and innovation studies, and adaptation to industrial change.

Directorate C: is responsible for the operation of the European Social Fund in the Member States.

Directorate D: is responsible for relations with the social partners and organisations of the dialogue, industrial relations and labour law, coordination of social security for migrant workers, migration policy and promotion of free movement for workers, equal opportunities for women and men, and family policy.

Directorate E: is responsible for analysis of and research on the social situation, social security and actions in the social field, and integration of disabled people. It also deals with external relations, international organisations, information and publications on behalf of the whole Directorate-General.

Directorate F: (based in Luxembourg) is responsible for analysis, coordination and development of policies and programmes in the field of public health, implementation of action programmes targeted on diseases, health promotion and disease surveillance, and

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health and safety at work. It also provides the permanent secretariat for the Advisory Committee of Safety, Hygiene and Health Protection at the Workplace.

Directorate G: is responsible for the management of human and financial resources of the Directorate-General, for audit and inspection, and evaluation.

The European Works Councils (EWC) Directive was approved on September 22, 1994, and implemented two years later. Under the terms of the Treaty of Amsterdam, this directive applies to all EU member states. This is the first pan-European legislation that regulates collective relationships between MNCs and employees.

1. The directive requires EWCs to be established in MNCs with at least 1,000 employees, having 100 or more employees in each of two member States.
2. The directive is designed to provide coverage to all employees.
3. The EWC aims to enhance employee's rights to information and consultation and provide rights to information regarding international corporate decisions that would significantly affect workers' interests.

Example: In response to the EWC directive, General Motors and Heinz have subsidised visits of worker representatives to other plants and provided information and forums for discussion at the European level.

The EU Council of Ministers has approved the pension funds Directive that sets standards for the prudential supervision of pension plans in the EU. The Member States will need to implement the Directive by the middle of 2005. The Directive covers employer-sponsored, separately funded pension plans. The Directive provides pension funds with a coherent framework to operate within the internal market and allows European companies and citizens the opportunity to benefit from more efficient pan-European companies and citizens the opportunity to benefit from more efficient pan-European pension funds.

Once implemented, the Directive will ensure a high level of protection for both members and beneficiaries of pension funds. The Directive refers to the pension plan provides as 'Institutions for Occupational Retirement Provision' (IORP) who will be subject to detailed rules of operation, including requirements to inform members and beneficiaries properly of the terms and status of the plan, prudently calculate promised benefits and cover them with sufficient assets and give supervisory authorities the necessary powers to monitor and supervise the plans.

The greatest barrier to implementation of the pan-European pensions is the taxation differences among member States. The Directive does not attempt to cover taxation issues which may need a separate and more prolonged process though the EU legislative institutions. Many member countries' tax laws do not recognise contributions to foreign pension plans. This creates unfavourable tax circumstances for employees working outside their home countries and contributing to pension plans in their host countries.

There was an impact on the jobs due to the formation of the Single European Market (SEM). There was alarm that those member states that have relatively low social security costs would have a competitive edge and that firms would locate in those member states that have lower labour costs. The counter-alarm was that states with low-cost labour would have to increase their labour costs, to the detriment of their competitiveness. There are two industrial relations issues:

1. The movement of work from one region to another and its effect on employment levels

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2. The need for trade union solidarity to prevent workers in one region from accepting pay cuts to attract investment at the expense of workers in another region

Did u know? "Social dumping" is a term used to describe a temporary or transitory movement of labour, whereby employers use workers from one country or area in another country or area where the cost of labour is usually more expensive, thus saving money and potentially increasing profit. There is a controversy around whether Social Dumping takes advantage of an EU directive on internal markets.

North American Free Trade Agreement (NAFTA): NAFTA is an agreement which involves the formation of a free trade zone between the United States, Canada and Mexico. The Canada–United States Free Trade Agreement went into effect on January 1989, and a draft accord to create NAFTA, which brought Mexico into the trading bloc, was announced in August 1992. The NAFTA agreement was signed by the governments of the United States, Mexico, and Canada in December 1992, coming into force in January 1994.

NAFTA differs from the Single European Market in that it is a free trade zone and not a common market. NAFTA deals only with the flow of goods, services, and investments among the three trading partners. It does not address labour mobility or other common policies of the SEM. It has introduced new institutions to process complaints, violations of labour laws, and committed each of the three nations to introduce a set of 11 labour rights principles.

There are significant HR implications in NAFTA that must be considered by HR managers in North American firms. While NAFTA does not include workplace laws and their enforcement, the country with the least restrictive workplace laws will have a competitive advantage.

Organised labour in the United States and Canada responded to the passage of NAFTA with substantial opposition, based on fear of job losses due to the transfer of production to Mexico to take advantage of lower wage rates and tax enforcement of social and labour legislation. In the case of NAFTA, jobs are able to cross borders, but workers are not. There has been – a general lack of coordination between the labour organisations of the NAFTA countries.

Example: In telecommunications, trucking, and electrical industries, NAFTA has stimulated some strategic cross-border collaboration among individual trade unions and their allies.

The EU and NAFTA provide examples of regional integration, which present many issues for international industrial relations. As regional integration, and interregional integration, develops in other parts of the world, issues will continue to emerge for international industrial relations.

Self Assessment

State whether the following statements are true or false:

13. Trade union leaders consider the growth of multinationals as a threat to the bargaining power of labour.
14. There is no significant implication of the regional integration agreements on industrial relations internationally.
15. NAFTA is an agreement which involves the formation of a free trade zone between the United States, Canada, and Brazil.

Notes

Case Study

Norman (I) Limited

The Company

The first wall tile manufacturing plant in India was established by Kay Pee in 1963 at Thane in Mumbai under the name Norman tiles. The company was using the brand name 'Norman', a leading international tile manufacturer, Norman International Limited and was paying royalty for the same. The Norman International Limited owned 49% equity in this venture since its inception. With growth in sight the company set up another manufacturing unit at Rampur in the state of Uttar Pradesh with an investment of ₹ 85 million in the year 1981. Initially, at Rampur unit the company was carrying out only partial operations with semi-finished products being supplied by Thane unit. It was only in 1984, that the company started carrying out full operations at the Rampur unit. Since, the market for ceramic tiles started expanding, the company expanded its operations, accordingly. The process of manufacturing wall tile was such that it needed unskilled manpower barring few fitters and electricians. Accordingly, the company hired 400 workers mostly uneducated and unskilled from nearby villages. Few of them were taken for the fitter and mechanic positions. Apart from these, there were sixty staff members looking after the other support functions. The workers were paid low wages and were employed on temporary basis at the beginning and till 1986 most of them were not made permanent. The human resource department was headed by R.C. Jain, who was an experienced professional and was with the firm since its inception.

The Genesis

In 1986, the company ventured into floor tile manufacturing and set up another facility at Rampur unit. This plant was semi-automatic as compared to the wall tile plant which needed manual operations. The machinery of floor tiles unit was bought from Italy and due to the nature of process some experienced workers were shifted from wall tile facility. Slowly, two distinct groups of workers emerged based on the nature of their job and subsequent skills required. First group was that of unskilled workers mostly associated with manual operations and the second group was that of skilled workers looking after technical operations. The second group was paid higher wages than the first group. This disparity led to discontentment among workers but in the absence of union, it never came out as an organised reaction. The first such organised attempt was made by workers in 1988, but a prompt and harsh action from management aborted the workers' bid to form union. However, this event drew management's attention towards workers' grievances and management helped workers to form a union in 1989. The union was named "Bhartiya Crystallisation Mazdur Sangh". However, since most of the workers barring few technical ones were uneducated, they were unaware of roles and responsibilities of union.

The Management started negotiations with the newly formed union and the first wage settlement agreement was signed on January 19, 1990. In this agreement, though the management agreed to increase wages to the extent of ₹ 250 per month, it linked wages to production targets. After three months of this agreement, the union leader left the organisation to join government service. The union was left leaderless. After some time the workers started voicing their concern about the target-linked wages, but in the absence of a leader their concerns could not get a voice. It was at this point that some external labour leaders started inciting the workers. A gate meeting was organised to exploit the situation on September 21, 1990. After this incident, the industrial relations situation

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Notes

further worsened and led to a go-slow movement by workers in January 1991. This affected the productivity of the plant severely. Due to the absence of union leadership, management too, found it difficult to control the situation, since external leaders' influence was very much visible and company's HR Manager R.C. Jain refused to talk to the outsiders. He remained adamant and left the job in March 1991 and the go-slow by the workers continued. In another development, the incumbent, HR Manager Arun Joshi, who took over after Jain left converted variable DA to a fixed DA rate. Since, at that time inflation was spiralling and the rate of DA, elsewhere, was high, the workers refused to accept this provision. Ultimately, under pressure from external leaders as well as workers of the firm, Joshi withdrew the fixed DA and accepted the variable DA provision.

In the meantime, K. N. Trivedi took over as the unit head on May 5, 1991. Before joining this plant, he had served the Indian Air Force for seventeen years and was a strict disciplinarian. The organisational situation demanded quick action to stop go-slow because the company had market share of forty per cent in both the tile categories and the demand for tiles was still going up. The management did not want to lose a single day's production. In a calculated move, the management suspended thirty five workers who were on a go-slow. This was for the first time that any worker was suspended from the plant which instilled a sense of fear in the minds of the workers. As a result of this, workers started working and the productivity of the plant started showing improvement.

Meanwhile, the management had terminated some of the suspended employees who later on moved to the labour court against management's action on the presumption that labour courts are generally sympathetic to the workers. At the same time, Trivedi started dialogue with the external leaders to end the stalemate. The external leaders put pressure on the management to reinstate the suspended workers. Management agreed to make permanent those employees who were working with the company since its inception and did it with immediate effect. Suspension of some of the workers was also cancelled. Though these efforts helped management in streamlining the production, the attitude of the workers could not be changed totally. The ownership spirit amongst workers could not be developed.

The situation took another ugly turn in February, 1992 when the workers who were suspended earlier tried to create disturbances in the plant. The discontent was further fuelled by bad food provided to the workers in the unit's canteen in March, 1992. Ultimately, this led to formation of a new union "Bhartiya Yuva Sanitary and Crystallisation Mazdur Sangh". This union was not affiliated to any national labour union. However, the leaders were under the influence of Bhartiya Mazdur Sangh (BMS). This union submitted a charter of demands to the management. The demands included grain loan which was a contentious issue because the company had never given any grain loan to the workers. The demands were not accepted by the management. The workers gheraoed Trivedi but the management did not accede to the demands and called the police to intervene.

On March 17, 1992, the workers went on strike, on the call of the union without giving any prior notice. The management terminated seventeen workers during the strike. The strike continued till May 5, 1992. The workers were not paid any wages during the strike period. Since the workers were low wage earners, they were unable to continue the strike for a longer period. The management used the situation to their advantage and accepted only minor demands of sanctioning an advance of ₹ 500 to the workers. The workers accepted the management decision and were willing to restart production. Management reemployed the suspended workforce gradually over a period of fifteen-twenty days. Since, the workers did not receive wages for the strike period, they had realised the importance of their employment.

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In October, 1993, the second agreement was signed between management and the union. Between October, 1993 and December, 1996 the productivity and industrial relations were improved. In 1996 the organisation started receiving export orders for its products. The quality requirements for the export orders were stringent. Therefore, the organisation decided to go in for ISO 9000 certification for their Rampur plant. The management realising the importance of workers' involvement in ISO 9000 certification process started training workers on a continuous basis in June, 1996. The in-house training emphasised on house keeping, general hygiene of the workers, standard operation procedure and awareness about all kinds of losses. As a result of continued efforts, ISO 9002 certification was received by the plant in January, 1997. Meanwhile, the third wage agreement was signed between the management and the union for a period of three years in January, 1997. To reinforce the training process, HRD cell with well-equipped in-house training tools was developed in January, 1998. Training programmes focussed on shop-floor excellence and total productive maintenance (TPM). Quality manual for internal use was also developed. The goals for 2000–2001 for the plant were devised as under:

1. Laying of natural gas pipeline
2. ISO 14000 certification
3. Control of losses
4. Reduction in personnel expenditure
5. Team building training

The Rampur plant of Norman had come a long way since its inception. In the words of Trivedi, "despite all the bottlenecks, we have achieved a satisfactory level of productivity. We still intend to continue doing so by various means. However, I want to build this plant as a community where each member's commitment with the plant remains high. This can only be achieved by inculcating the ownership value. We sincerely believe that this can only be developed by creating a community of Norman in which every member is ensured of a minimum standard of living with all basic amenities and worry free life away from work. We intend to do so by providing medical, educational and vocational training facilities for their families, thereby developing trust between the management and the workers."

Questions

1 Does formation of trade unions help organisations improve industrial relations?

2. Was it a right strategy to nurture pro-management union leaders?
3. Was it a right strategy adopted by Jain not to recognise and encourage outside leadership for the plant union?
4. The strategy to instil fear in the minds of workers to improve their productivity was in the interest of the organisation. Discuss.
5. In your view, what action should have been taken by the management at various stages to improve labour-management relations?
6. In your view, what are the thrust areas in HR strategy which may improve the competitive strength of the workers?

Source: B D Singh, *Industrial Relations: Emerging Paradigms*, Excel Books, New Delhi

Notes

10.4 Summary

- International operations of MNCs create considerable implements in effectively segmenting labour groups by national boundaries and stratifying groups within and between nations.
- MNCs headquarters involved in IR is influenced by various factors.
- Trade unions opt for less ambitious strategies in dealing with multinationals.
- Trade unions and the ILO will pursue these strategies and continue to lobby where possible for the regulation of multinationals via the European Commission and the United Nations.
- Healthy IR can enhance employment and further the goal of upgrading employment quality and skills in foreign subsidiaries.
- The EU aims to established minimal standards for social conditions that will safeguard the fundamental rights of workers.

10.5 Keywords

Industrial Relations: Employer–employee relationships that are covered specifically under collective bargaining and industrial relation laws.

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

NAFTA: It is a regional integration agreement between US, Canada and Mexico.

Regional Integration: A process in which states enter into a regional agreement in order to enhance regional cooperation through regional institutions and rules.

Social Dumping: It is a temporary movement of labour from one country to other country where the labour cost is very high.

Subsidiary: It is an entity that is controlled by a separate entity.

Trade Union: It is an organisation of workers who have banded together to achieve common goals in key areas, such as working conditions.

Trading Bloc: It is a set of countries which engage in international trade together, and are usually related through a free trade agreement or other association.

Wage: It is compensation, usually financial, received by a worker in exchange for their labour.

10.6 Review Questions

1. Analyse the factors that influence multinationals in industrial relations?
2. In what way can trade unions constrain the strategic choices of multinationals?
3. Critically examine the characteristics of multinationals that give labour unions cause for concern.
4. Examine the response of the trade unions to multinationals. Have these responses been successful? Justify.
5. Examine the role that has regional integration played in international IR.

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6. "It is difficult to compare the industrial relations systems and behaviour across national boundaries." Do you agree? Justify.
7. Examine the factors that affect the involvement of the MNCs headquarters in IR.
8. Analyse the recent developments in international IR in terms of unions and management approaches.
9. Explain the role of European Union in bringing significant changes in industrial relations internationally.
10. Examine the role played by the ITSs for the national union in a particular industry.

Answers: Self Assessment

1.	Strategy	2.	Institutional
3.	Technological	4.	Government
5.	Trade union	6.	Ideological
7.	Labour cost	8.	True
9.	False	10.	True
11.	True	12.	False
13.	True	14.	False
15.	False		

10.7 Further Readings

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Unit 11: Multinational Performance Management

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Objectives

After studying this unit, you will be able to:

- Discuss multinational performance management
- Explain the challenge faced in multinational performance management process
- Describe performance management and performance appraisal of international employees
- Discuss about the appraisal of HCN employees
- Describe the performance management system of various companies

Introduction

Performance Management is a process for managing both behaviour and results of the performance. Performance is the sum of behaviour and results and cannot be viewed as independent of either component. It is an outcome of effective management. The most challenging aspects for a firm operating internationally are managing the performance of its various international facilities. Since organisations exist to achieve goals, the degree of success that individual employees have in reaching their individual goals is important in determining organisational effectiveness. The assessment of how successful employees have been at meeting their individual goals, therefore, becomes a critical part of human resource management.

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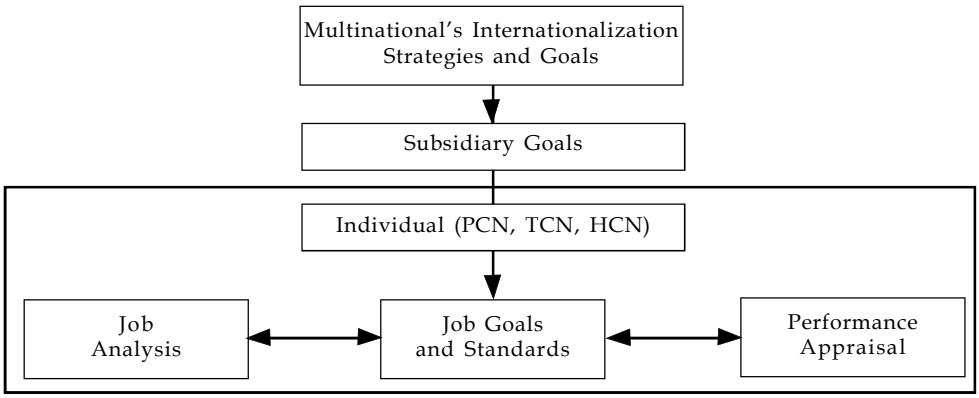
11.1 Performance Management

Performance management refers to the ongoing process of setting goals, self-assessment, manager assessment, peer-assessment, coaching, development planning, and evaluation. It is widely used in the business and has two forms:

1. ***Competitive assessment:*** where employees are rigorously compared against each other.
2. ***Coaching and development:*** where employees are evaluated against their own goals and capabilities.

The basic components of international performance management are shown in Figure 11.1. It provides a convenient starting point of the link between the multinational's internationalisation strategies, its goals for individuals international operations in terms of contribution to global profitability, and individual performance management, whether PCN, TCN or HCN. This is important since an individual's performance is evaluated according to expectations of appropriate outcomes and behaviour that contribute to organisational goal attainment.

Figure 11.1: Basic Components of International Performance Management



Source: PJ Dowling *et al.* International HRM (2001) p. 119

11.1.1 Performance Management and other HR Processes

Performance management is the central process of the human resource cycle because it influences the following essential processes:

1. Rewards management
2. Human resource planning
3. Training and development process
4. Relationship with strategy

An effective performance system at the strategic level depends upon the commitment of quality management time of senior executives, including the CEO. Performance management is the most important responsibility of HR executives in global transnational organisations.

For managing the performance of the employees, they are assigned with certain responsibilities at the starting of the financial year based on the corporate budget and then the planning is done to measure the effectiveness of the employees in MNCs. It includes selection of the key areas for performance, target setting and action plan determination for achievement of the performance and then assigning the weightage to the concerned responsibilities.

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Caution It is of two types:

1. ***Off-line performance planning:*** this is done on the basis of certain predictions with regards to the business goals and activities.
2. ***Online performance planning:*** this is done in terms of clear business strategy and allocated funds.

Self Assessment

State whether the following statements are true or false:

1. Performance Management only manages the results of the performance.
2. Competitive assessment is a form of Performance management where employees are rigorously compared against each other.
3. An individual's performance is evaluated according to expectations of appropriate outcomes and behaviour.
4. Performance management is the central process of the human resource cycle but does not influence any other HR function.

11.2 Challenges in Multinational Performance Management

The multinational has specific expectations for each of its foreign affiliates in terms of market performance and contribution to total profits and competitiveness. When evaluating subsidiary performance against these expectations, it is important to recognise various constraints that may affect goal attainment. They are:

1. ***Whole versus Part:*** A multinational is a single entity that faces an international environment. Integration and control imperatives 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.

   A multinational establishes an operation in a particular market where its main global competitor has a dominant position. The objective of entering the market is to challenge the competitor's cash flow with aggressive pricing policies. He explained that the balance sheet of this particular subsidiary might be continually in the red but this strategy may allow substantially higher returns in another market.

   In another situation 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.

   So, the consequences of such global decisions for subsidiary management must be taken into consideration for performance evaluation.

2. ***Non-comparable Data:*** Many a time, the data obtained from subsidiaries is not interpretable. As illustrated:

   (a) 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. Is the subsidiary performing effectively?

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(b) Sales in Peru may be booming but headquarters management was unaware that under Peruvian accounting rules, sales on consignment are counted as firm sales. How should the headquarters accounting system handle these sales relative to sales from other subsidiaries that do not consider sales on consignment as firm sales?

Physical measures of performance are easier to interpret but difficulties may still arise.

Example: Notions of adequate quality control checks can vary from one country to another, import tariffs can distort pricing schedules, a dock strike in one country can unexpectedly delay supply of necessary components to a manufacturing plant in another country, and local labour laws may require full employment at plants that are producing at below capacity. These factors can make an objective appraisal of subsidiary performance problematic and may complicate the evaluation of individual subsidiary managers.

3. ***Volatility of the International Environment:*** The turbulence of the international environment requires that long-term goals be flexible in order to respond to potential market contingencies. An approach may mean that subsidiaries could be pursuing strategies that no longer fit the new environment.

Example: Consider the impact on international business of major events in the last decade such as the collapse of communist rule beginning in 1989 throughout Eastern Europe and the former Soviet Union, the Persian Gulf War in 1991, the formation of the Single European Market in 1992, recent market reforms in China, the hand over in 1997 of the British colony of Hong Kong to the control of the People's Republic of China (PRC), and the current economic downturn in the so-called 'tiger' economies of South-East Asia.

Each of these events has profound implications for the global and local strategies of multinationals operating in these countries. Because subsidiaries operate under such volatility and fluctuation, they must tailor long-term goals to the specific situation in a given market.

4. ***Separation by Time and Distance:*** The congruence between the multinational and local subsidiary activities are complicated by the physical distances involved, time-zone differences, the infrequency of contact between the corporate head-office staff and subsidiary management, and the cost of the reporting system. Developments in sophisticated worldwide communication systems like video telephone, teleconference, and e-mail do not fully substitute for face-to-face contacts between subsidiary managers and corporate staff. Meeting personally is often necessary to fully understand each person's situation. So, many multinational corporate managers spend a considerable amount of time travelling in order meet expatriate and local managers in foreign locations. So, it is imperative for HR corporate staff to take account of country-specific factors when designing performance management systems.

5. ***Variable Levels of Maturity:*** Without the supporting infrastructure of the parent, market development 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-subsidised by other divisions.

Example: One does not fire a Mexican manager because worker productivity is half the American average. In Mexico, it means that this manager is working at a level three or four times as high as the average Mexican industrial plant. The harassed Mexican manager has to live with Mexican constraints, not European or American ones, and these can be very different. The

way we measure worker productivity is exactly the same, but the numbers come out differently because of that environmental difference.

6. ***Headquarter-subsidiary Interdependence:*** Subsidiary performance depends largely on how well the multinational as a whole supports it, how much autonomy is granted in making its own strategy and implementation.

7. ***Ethical and Legal Issues:*** Many multinationals assess performance using result-oriented measures. It is important to assess how the subsidiary management is achieving its results. Consideration of ethical and legal issues is significant.

8. ***Market Maturity:*** Some markets are less developed than others. Subsidiaries in these markets where the supporting infrastructure is not available may perform much less well in interns of sales volume than subsidiaries in more established markets. This makes any purely bottom-line assessment of performance inappropriate.

   The productivity levels of people are very different in different parts of the world. In countries like India, infrastructural and government delays are so frustrating that a multinational unit may not succeed in obtaining timely clearances, resulting in long project overruns in time and cost.

   So, studying the above factors it is clear that there are a number of significant constraints that must be considered when evaluating the performance of a foreign subsidiary and expatriates working there.

Self Assessment

State whether the following statements are true or false:

5. Non-comparable data obtained from subsidiaries poses challenge in multinational performance management.

6. In order to manage the turbulence of the international environment requires that long-term goals be rigid.

7. Time-zone differences ease out the congruence between the multinational and local subsidiary activities.

8. Autonomy granted to the subsidiary in making its own strategy and implementation, influences its performance.

9. Market maturity is an important factor to consider while assessing the performance of subsidiaries.

11.3 Performance Management and Performance Appraisal of International Employees

Individual performance management involves job analysis, job goals and standards, and performance appraisal. It comprises a formal process of goal setting, performance appraisal, and feedback.

Performance management is a process that enables the multinational to evaluate and continuously improve individual, subsidiary unit, and corporate performance, against clearly defined, pre-set goals and targets. Strong goal setting and appraisal are key elements of performance management systems that may include training and development and performance related pay. By adopting a performance management approach, multinationals are building on the

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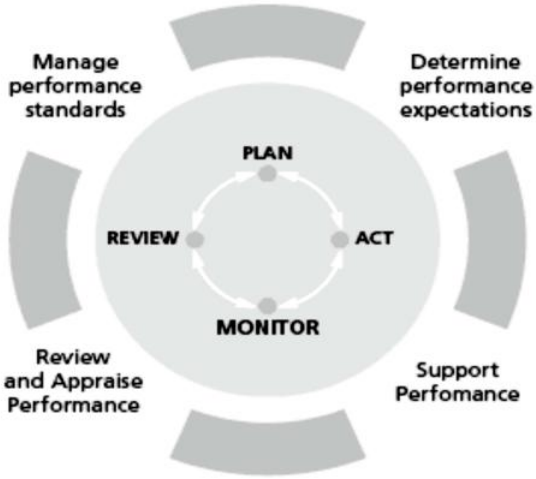
goal-setting strengths of management-by-objectives and more traditional methods of performance appraisal.

Figure 11.2: Performance Management and Appraisal



Source: http://www.scotland.gov.uk/Resource/Img/53814/0008911.gif

11.3.1 Performance Management of Expatriates

Performance management emphasises on following sub-processes:

(a) Setting clear goals for each unit, department and every individual employee.

(b) Setting standard and measurement criteria for evaluating each type of goal.

(c) Formal monitoring and review of progress towards these objectives.

(d) Using the outcomes of the review process to reinforce desire employee behaviour through differential rewards and identifying training and development needs.

(e) Giving feedback to the employees.

11.3.2 Variables that Influence Performance or Expatriate

Performance can be viewed as a combination of several variables such as motivation, ability, working conditions, clarity of goals and roles, and expectations. The following factors and their interrelationships affect performance assessment of expatriates:

(a) Compensation package;

(b) Nature of assignment (assignment task variables and role of expatriate);

(c) Support from headquarters;

(d) Environment in which performance occurs; and

(e) Cultural adjustment of the individual and the accompanying family members.

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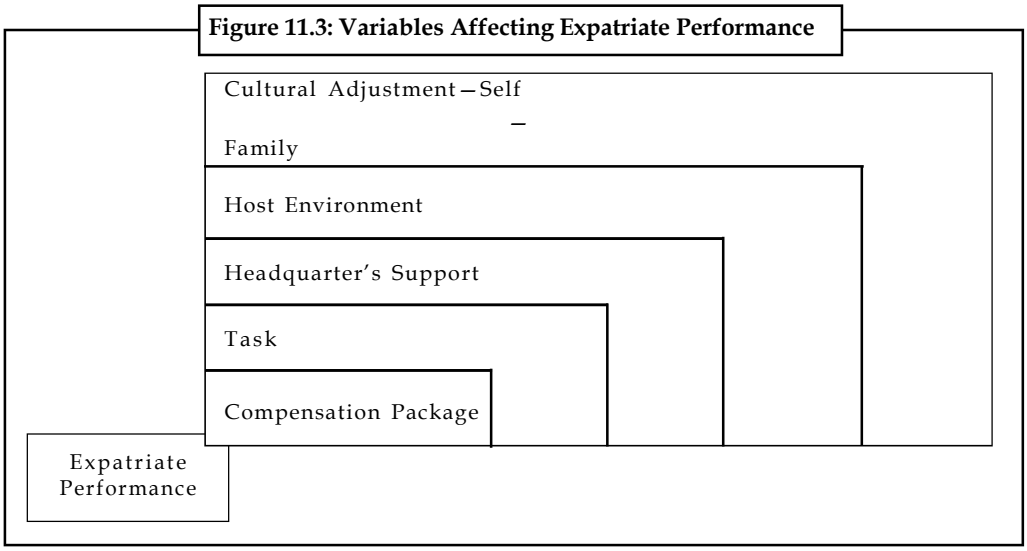
Figure 11.3: Variables Affecting Expatriate Performance



Above Figure 11.3 depicts the variables that form the basis on which the nature of the expatriate assignment, performance management, the criteria for assessment, and other elements that comprise an effective performance management system can be explored.

1. ***Compensation Package:*** Perceived financial benefits, along with the career progression potential associated with an international assignment, are important motives for 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. Four expatriate task roles are:

   (a) The chief executive officer, or subsidiary manager, oversees and directs the entire foreign operations.

   (b) The structure reproducer carriers 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.

   (c) The trouble-shooter is the individual sent to a foreign subsidiary to analyse and solve a particular operational problem.

   (d) The operative performance functional job tasks in an existing operational structure, in generally lower-level, supervisory positions.

Example: In the study of expatriate performance management of the Finnish multinational, Nokia Telecommunications, it project employees in five categories of personnel: top managers, middle managers, business establishers, research and development (R&D), project personnel and there is a clear difference in the way performance management is approached within these groups. Middle managers play a moderate role in establishing performance goals, whereas business establishers play a strong role in establishing their performance goals.

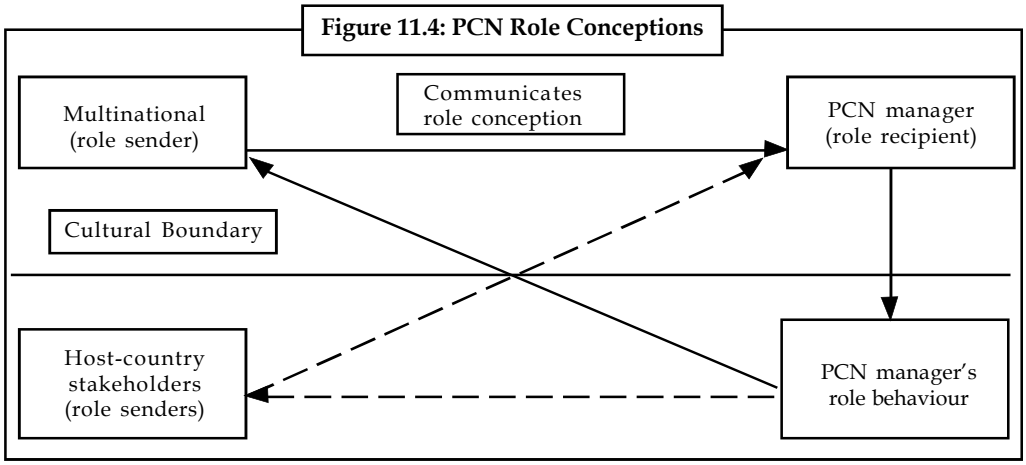
For the expatriate (role receipt) the parent company (role sender) predetermines his role in the foreign assignment, and role expectations may be clearly communicated to the expatriate before departure. It is found that American expatriates working in Hong Kong exhibited similar managerial behaviour to those employees remaining in the United States.

Notes

In the absence of incentives to modify their role behaviour when abroad, it is not surprising that the expatriates concerned performed as they did.

Communication of role conception from the multinational to the expatriate is indicated by the straight arrows in Figures 11.4 and 11.5. Role conception is also communicated to the role recipient by host-country stakeholders (example, subsidiary employees, host government officials, customers, suppliers, etc.) as shown by the dashed arrows. This crosses a cultural boundary. Role behaviour provides the feedback loop, again at two levels: the parent and host-country stakeholders. Trying to perform to differing expectations may cause role conflict. If the PCN manager adapts his role behaviour according to the role conception communicated in the host environment, it may conflict with that predetermined at headquarters.

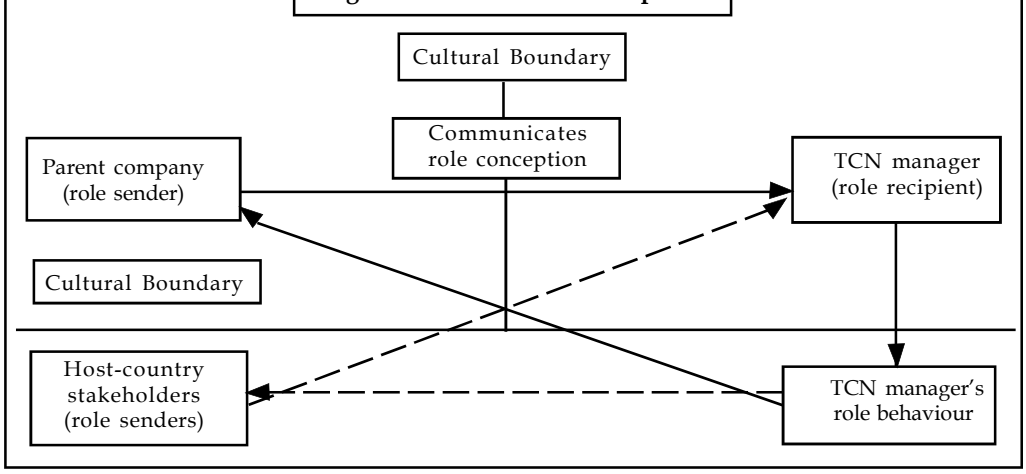
Figure 11.4: PCN Role Conceptions



Source: International Studies of Management and Organisation (1985) vol. 15 (1) p. 60

If the PCN is to identify too closely with host subsidiary concerns, he may be recalled. Some multinationals will restrict the length of stay to no more than three years to contain the possibility of PCN identification with local concerns. Because of the importance given to the parent as role sender in performance evaluation, a PCN may elect to ignore role communication sent from the host-country stakeholders if he considers that performance evaluation is determined by how role behaviour conforms to headquarters expectation.

Figure 11.5: TCN Role Conception



Source: International Studies of Management and Organisation (1985) vol. 15 (1) p. 60

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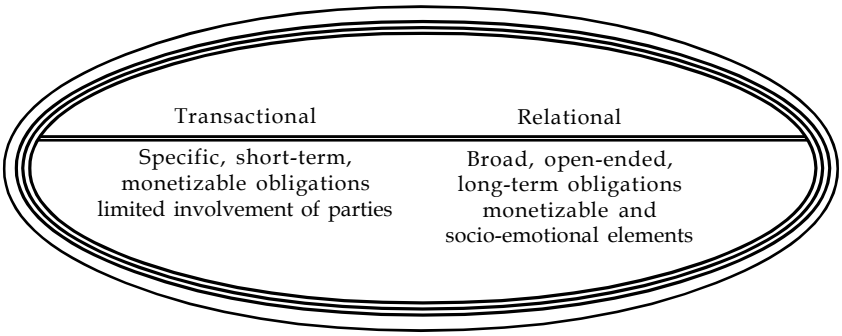
Role expectations are more complex for the TCN than the PCN, because the role is defined by and performed in two countries other than the TCN's own.

Example: A U.S. manager working for a Dutch multinational posted as a TCN in Indonesia may face added difficulties. The American's role behaviour may be deemed in appropriate by both the parent (Dutch multinational) and the host nationals (Indonesians). American manager working in Indonesia as a PCN or TCN encounters the lack of job discretion with same effect in terms of performance developing upon strength of other intervening variables. Differing role sender may exacerbate the situation through conflicting role expectations.

3. ***Headquarters' Support:*** The expatriate assignment differs from a domestic relocation because it involves the transfer of the individual and accompanying family members into a foreign environment, which is outside their normal, cultural comfort zones. The individual's primary motivation for accepting the assignment may be career or financially oriented. The level of headquarters' support provided to the individual and the family is an important performance variable that involves more than the tangible, monetary support contained in the compensation package.

Figure 11.6: Employment Contract



Source: P. J. Dowling, International HRM. 2001 (p. 131)

The employment contract comprises two components – the transactional and the relational – contained within a broader social contract. The social contract represents an implicit contract to execute the employment according to a set of values, beliefs and norms. The transactional contract comprises the specific, short-term, monetisable obligations and the relational contract is characterised by broad, open-ended, long-term obligations based on both exchanges around monetisable elements (example, pay for service) and socio-emotional elements (example, loyalty and support).

The relational element of the employment contract is connected to the concept of the psychological contract. The "beliefs that individuals hold regarding promises made, accepted, and relied upon between themselves and another." Violation of the psychological contract occurs when an individual feels that the organisation has not fulfilled its obligations in return for the efforts and contributions made by the individual. Perceived violation has a negative effect on commitment and loyalty to the organisation. The way in which the expatriate and their family are received and supported by subsidiary is also important. Therefore, it may be concluded that headquarters support in the foreign location is a more powerful explanatory variable in expatriate performance than is generally recognised.

4. ***Host Environment:*** The international context – with its differing societal, legal, economic, technical, and physical demands – can be a major determinant of expatriate performance. So, expatriate performance should be placed within its international as well as its

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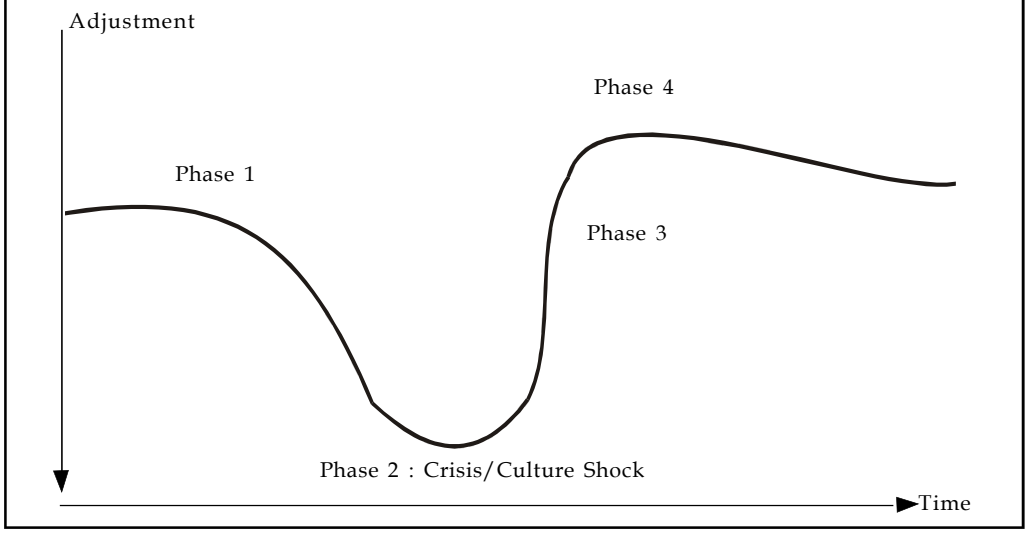
organisational context. Therefore, the five major constraints identified in multinational strategy for goal setting for the subsidiary are important considerations strategy performance management. The type of operation to which the expatriate is assigned is important.

Example: In China, it is relatively easier to perform in a wholly-owned subsidiary than in a joint venture with a state-owned enterprise. An expatriate IJV manager may have difficulty trying to serve two masters and experience a high level of uncertainty regarding the effect of differing goal expectations for the new IJV upon his performance evaluation.

The stage of the international business will influence the success of the expatriate. An expatriate overseeing the establishment of a new facility in a foreign country, especially in a developing or emerging market, will face different challenges and constraints than one who is posted in a mature operation.

5. ***Cultural Adjustment:*** The process of cultural adjustment is a critical determinant of expatriate job performance. Expatriates and their families will have some difficulty adjusting to a new environment, and this will impact on the manager's work performance.

Figure 11.7: Phase of Cultural Adjustment



Source: International Journal of Human Resource Management, 1991 (2–3) p. 380

The concept of an adjustment cycle or curve is helpful in demonstrating the typical phases. The U-curve is based, on psychological reactions to the assignment and comprises certain phases. Phase 1 begins with reactions prior to the assignment-the expatriate may experience a range of positive and negative emotions such as excitement, anxiety, fear of the unknown, sense of adventure, etc. There can be an upswing of mood upon arrival in the assignment country that produces the 'honeymoon' or 'tourist' phase.

Then, as the novelty wears off, realities of everyday life in the foreign location begin to intrude, homesickness sets in, and a downswing may commence a feeling that the party is over which can create negative appraisals of the situation and the location leading to a period of crisis (Phase 2).

This can be a critical time, and how the individual copes with the psychological adjustment at this phase has an important outcome in terms of success or failure. Once past his crisis point, as the expatriate comes to terms with the demands of the new environment, there is

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a pulling up (Phase 3) as the person begins to adjust to the new environment. This levels-off over time described as healthy recovery (Phase 4).

Expatriate and his family members undergo these cycles individually but not all members of the family face the same mood at the same time. Certain personality factors along with support from headquarters and spouse, and pre-departure training can shorten the period of depression and thus help in improving the performance.

Example: In the study of American managers in Japan, Korea, Taiwan, and Hong Kong, it is found there is a high correlation between spouse and expatriate adjustment. Recognising that cultural adjustment is a major problem when bringing HCNs (including Americans) into its home operations, the Norwegian multinational, Norsk Hydro, has developed a family monitoring programme. Supervised by Corporate Expatriate Services staff, Norsk Hydro employees volunteer to 'adopt' a visiting family. The volunteers are generally employees who have worked abroad as expatriates and thus have an understanding of what it is like to move a family unit into another country.

Did u know? **360-degree Feedback**

It is the feedback that comes from all around an employee. "360" refers to the 360 degrees in a circle, with an individual figuratively in the center of the circle. Feedback is provided by subordinates, peers, and supervisors. It also includes a self-assessment feedback from external sources such as customers and suppliers or other interested stakeholders. It is also called multi-rater feedback, multisource feedback, or multisource assessment.

Upward feedback is a feedback where managers are given feedback by their direct reports or a traditional performance appraisal where the employees are most often reviewed only by their managers.

11.3.3 Criteria used for Performance Appraisal of International Employees

Data from performance management appraisal process is often used to determine pay and promotion, and training and development requirements. There are differences in the way this process is handed within companies.

Example: In Germany and Sweden, it is common for employees to have input into job goals setting, whereas in other countries such as the United States, job goals tend to be assigned.

1. ***Performance Criteria:*** Hard, soft, and contextual goals are used as the basis for performance criteria.

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

   (b) Soft goals tend to be relationship or trait-based, such as leadership style or interpersonal skills.

   (c) Contextual goals attempt to take into consideration factors that result from the situation in which performance occurs.

   The performance evaluation of subsidiary managers against hard criteria is supplemented by frequent visits by headquarters staff and meetings with executives from the parent company. Soft criteria can be used to complement hard goals, and take into account areas

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that are difficult to quantify such as leadership skills but their appraisal is somewhat subjective and in the expatriate context more complicated due to cultural exchanges and clashes. An appraisal system that uses hard, soft, and contextual criteria builds on the strengths of each while minimising their disadvantages using multiple criteria wherever possible is recommended.

2. ***Who Conducts the Performance Appraisal?:*** 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 a particular situation.

   Appraisal of other expatriate employees is likely to be conducted by the subsidiary's chief executive officer, the immediate host-country supervisor, or the individual's home-country manager, depending on the nature and level of the position concerned. Host-country managers may have a clearer picture of expatriate performance and can take into consideration contextual criteria, but they may have culturally bound biases (example, about role behaviour) and lack an appreciation of the impact of the expatriate's performance in the broader organisational context.

3. ***Standardised or Customised Performance Appraisal Form:*** Domestic companies commonly design performance appraisal forms for each job category, particularly those using a traditional performance appraisal approach rather than performance management. Such standardisation assists in the collection of accurate performance data on which personnel decision can be made and allows for cross-employee comparisons.

4. ***Frequency of Evaluation:*** Evaluation is commonly performed on a yearly basis, and this appears to extend to international performance systems.

Example: The majority of U.S. firms reported annual appraisal practices. The U.S. firms using annual appraisal systems were more likely to use standard appraisal forms and hard criteria.

5. ***Performance Feedback:*** An important aspect of an effective performance management system is the provision of timely feedback of the evaluation process. Regular feedback is an important aspect in terms of meeting targets and revising goals, as well as assisting in motivation of work effort. 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.

11.3.4 Contextual Model of Expatriate Performance Management

Tahvanainen developed a comprehensive model that illustrates how performance evaluation is both an outcome of the company's strategies and goals (through goal setting), and an important source of information on which other personnel-related activities, such as training and development and performance-related pay, are based.

The organisational context is comprised of the nature of the job, the organisational structure, a standard performance management system, top-management support, size of the receiving unit (subsidiary), and the style and skills of the manager and subsidiary employees.

Example: In Nokia, the organisational structure emerged as important. Nokia has adopted a global matrix form that prevails at the top-management level of the multinational as an overarching structure.

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However, in some divisions, and particularly at lower organisational levels, a traditional line-management organisation remains. Employees within these different organisational configurations were managed differently.

Example: Expatriates in line positions were evaluated by their host-country managers, were evaluated by host- and home-country superiors.

Another aspect is that clarification of performance expectations is an important element linking company strategies and goals with performance evaluation.

Example: Expatriates working in customer project operations tended to rely more on guidance, performance review, feedback, and coaching on an ongoing, informal basis rather than Nokia's standardised performance management system.

Caselet

Performance Appraisal at Pepsi-Cola International

Pepsi-Cola International (PCI), with operations in over 150 countries, has devised a common performance appraisal system that focuses on motivating managers to achieve and maintain high standards of performance. Administrative consistency is achieved through the use of a performance appraisal system of five feedback mechanisms—instant feedback, coaching, accountability based performance appraisals, development feedback, and a human resource plan.

The common system provides guidelines for performance appraisal yet allows for modification to suit cultural differences. For example, the first step—instant feedback—is based on the principle that any idea about any aspect of the business or about an individual's performance is raised appropriately and discussed in a sensitive manner. The Instant Feedback message can be delivered in any culture; the important thing is not how it is done but that it is done.

In practice of PCI, the successful delivery of Instant Feedback requires some adjustment to local cultures. Americans use it because it fits the fast-paced way of doing business. In most Asian cultures, feedback may be tough and direct but is never given in public; nor, in some Asian cultures, does head-nodding during instant feedback signify agreement, only that the message has been heard: Some Latinos will argue very strongly if they do not agree with the feedback, and some employees, Indian nationals, for example, will insist on a great deal of specificity. The purpose of Instant Feedback is always to improve business performance, not to criticise cultural styles. Using this system, PCI tries to balance the cultural and administrative imperatives of successfully managing the performance of a diverse workforce.

Source: http://www.whatishumanresource.com/performance-appraisal-at-pepsi-cola-international

Self Assessment

Fill in the blanks:

10. Individual performance management involves job ……..., job goals and standards, and performance appraisal.

Notes

11. Performance can be viewed as a combination of several variables such as motivation, ability, working conditions, clarity of goals and …….., and expectations.
12. …….. plays an important role in determining the performance of the expatriate.
13. Performance management emphasises on formal monitoring and …….. of progress.

11.4 Appraisal of HCN Employees

Performance appraisal in different nations can be interpreted as a signal of distrust or even an insult.

Example: In Japan, it is important to avoid direct confrontation to "save face," and this custom affects the way in which the performance appraisal is conducted. A Japanese manager cannot directly point out a work-related problem or error committed by a subordinate.

One way to overcome the dilemma of cultural adaptation is to use host-country nationals to assist in devising a suitable system for appraising the local staff in the subsidiary and to advice on the conduct of the appraisal.

Parent-company role conception is communicated to the HCN, but it crosses the cultural boundary, as does feedback expressed as the HCN's role behaviour. The HCN receives role expectations and enacts role behaviours in his own cultural environment. For subsidiary staff below the top-management level, one would expect the local behavioural norms of work behaviour.

While some companies are developing information systems to assist in performance appraisal, the widespread use of computer-generated data is hampered by the legal constraints imposed by some host governments or by concerns about personal privacy.

There are various ways in which an expatriate appraisal can be effective:

1. Stipulate the assignments' difficulty level.
2. Weight the evaluation more towards the on-site manager's appraisal than the home-site manager's distant perceptions of the employee's performance.
3. Modify the normal performance criteria used for that particular position to fit the overseas position and characteristics of that particular locale.
4. If the home-site manager does the actual written appraisal, they may use a former expatriate from the same overseas location to provide the background advice during the appraisal process.

So, it is evident that the performance appraisal as a process is indeed very complex due to the international environment apart from the cultural connotations.

Notes An international survey found that worker performance appraisals featured the U.S. cultural concept of meritocracy, which emphasises fairness and a short-term orientation. In other cultures, meritocracy is not commonly involved in performance appraisal, which may emphasise other factors such as family ties, social status, and perceived loyalty to the manager or the employing institution. On a comparative basis, Asians tend to share intense loyalties to their work groups and employing institutions. Performance is directed

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toward group success, not individual success. Individual appraisals often conflict with this group-orientation, causing serious personnel problems.

In South Korea, performance appraisal features worker development, seniority, attitude, loyalty, and initiative. In the People's Republic of China (PRC), formal performance evaluations are being introduced in more progressive institutions, but they tend to evaluate employee dependability, loyalty, and contributions to the group, as opposed to actual job performance. By contrast, U.S. workers fully expect to be appraised individually and rely heavily on individual feedback regarding performance.

By way of comparison, performance appraisals in the U.S. are usually conducted once a year; but, in Japan, developmental appraisal is usually conducted every month and evaluation appraisal is performed after 12 years. Feedback in the U.S. process is direct and probably in writing, but the Japanese feedback is subtle and given orally. U.S. employees tend to present their own rebuttal to the feedback, but Japanese employees never rebut. In the U.S. appraisal process, praise is given individually, but Japanese praise is given to the group. Research has also found that U.S. workers react more favourably to individual performance feedback than English workers do.

Task Taking the example of Tata-Corus, examine the parameters on which the HR manager will manage the performance of the expatriates in host-country.

Example:

1. ***Exxon:*** The Compensation and Executive Development (COED) system at Exxon is designed to ensure a disciplined approach to the development of managerial talent for the company. The system is directed from the top, where the COED committee is headed by the CEO, and is made up of members of Exxon's board. The committee is in-charge of reviewing the development and placement of the top 250 Exxon executives (many of them expatriates). Meeting nearly every Monday, the COED committee needs to ensure that there is a continual flow of managerial talent for the company and that all positions have back-up candidates. The committee then compares the performance of executives and makes decisions according to their future development needs.

   There is also a COED system within each of the Exxon subsidiaries, where the president of each subsidiary has his own COED committee, similar to the one at the head office. This enables the COED system to reach the top 2,000 managers at Exxon. In discussion with senior Exxon managers, it is rather striking to hear the universal acclaim given to the system. Most agree that the system accounts for Exxon's overall success.

2. ***General Motors:*** General Motors is another company with an equally strong tradition of performance management.

   At General Motors, the Supreme Court of Executive Review has included the top six executives in the company. During the week-long sessions in the board room of the Detroit headquarters each February and July, the members spend long days and nights listening to the analysis of more than 600 managers from each of GM's ten vice-presidents and group executives. A variety of questions are covered to get an accurate picture of where the individual stands in his career development.

Notes

Self Assessment

State whether the following statements are true or false:

14. Performance appraisal in different nations can be interpreted as a signal of distrust or even an insult.

15. Expatriate appraisal can be effective in stipulating the assignments' difficulty level.

Case Study

Skanska

Company Background

Skanska was founded in 1887 as manufacturer of cement products. The organisation rapidly expanded into a construction company and within 10 years its first international order was received. Currently Skanska offers a broad variety of construction-related services and project development. Its mission is to develop, build and maintain the physical environment for living, traveling and working. By 2005 Skanska's annual turnover amounted to 124 667 million SEK. Skanska has approximately 54 000 employees around the globe and mainly in its home market, Sweden and the Scandinavian countries, the US, UK, Poland, the Czech Republic and Argentina. Although Skanska's operations in its home market are fairly decentralised, the operations outside of these markets are run from the parent company by the international division.

The growth in Sweden has been followed by expansion internationally. In the mid-fifties the company made a significant move on the international market. Its technical competence and its ability to adjust in foreign environments was a key to the success. These skills were widely utilised when Skanska moved into markets of Africa and the Middle East in the late sixties and Poland and USSR in the seventies. As a result of its ability to adjust in foreign markets Skanska is often considered as a local company by the locals. The motive for expanding internationally has for a number of years been to guarantee a stable growth by spreading the risks. The international division strives toward a yearly turnover of 2000 – 3000 million SEK by having approximately six projects on a yearly basis. A criterion for one single project is that it should have a turnover of at least 1 000 million SEK.

Performance Evaluation

The two primary objectives for Skanska's international projects are to build fast and make as much money as possible. Moreover, almost every goal that Skanska sets up has the characteristics of *hard goals*. Mr. Ousbäck claims that these goals are mainly directed towards the whole project and not so much towards individuals and as a result the goals are settled with high expectations. Beside these primary goals Skanska develops several secondary goals that aim towards expatriates in leader positions. All goals concerning international projects are developed in the home-country and then further mediated to the project managers. Moreover, the planning of the entire project is carried out in the home-country. However, these plans are frequently changed depending on how things evolve during the actual project and as a result new goals could be developed.

The evaluation process of the expatriates' performances is prepared and conducted by his/her immediate manager *once a year*. Furthermore, Skanska utilises a strategy where one HR representative interviews the expatriate at least *twice a year*. Mr Ousbäck claims that

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this is done in order to gain information how things are running and how the expatriate is managing his/her work tasks.

The *typical evaluator* for the expatriate is the immediate manager, because he/she possesses useful knowledge and information in order to perform a qualitative evaluation. Nonetheless, when the entire project is evaluated Skanska utilises the evaluation process through a manager from the human resource department. During the evaluation process of the expatriates there are two people involved, the immediate manager and the project manager. Apart from the expatriation evaluation the project manager further evaluates different work groups in order to gather information how the situation in different groups are and if some people do not get along they could be transferred between groups. Finally, the immediate manager has a meeting with the project manager to discuss the expatriate and his/her performances.

When evaluating and interviewing the expatriates Skanska sometimes finds out that the work group has unresolved problems. These often occur due to the intimate nature of living within the camp and for the fact that people do not always get along. In order to solve these sorts of problems the company sometimes has to relocate or send home a few expatriates. Evidence shows that expatriates who originate from sparsely populated areas in Sweden are those who most successfully manage to adapt to the life in camp. Mr. Ousbäck explains this by claiming that they have experience of living under similar circumstances and are therefore accustomed to a situation where everyone knows everything about everyone.

Skanska *does not change its evaluation strategy* for different projects because each project has the same organisation and also the same evaluation process.

Question

Summarise the performance evaluation method of Skanska.

Source: epubl.ltu.se/1402-1552/2007/005/LTU-DUPP-07005-SE.pdf

11.5 Summary

- Performance management refers to the ongoing process of setting goals, self-assessment, manager assessment, peer-assessment, coaching, development planning, and evaluation.
- It provides a convenient starting point of the link between the multinational's internationalisation strategies, its goals for individuals international operations in terms of contribution to global profitability, and individual performance management, whether PCN, TCN or HCN.
- The multinational has specific expectations for each of its foreign affiliates in terms of market performance and contribution to total profits and competitiveness.
- Individual performance management involves job analysis, job goals and standards, and performance appraisal. It comprises a formal process of goal setting, performance appraisal, and feedback.
- Performance management is a process that enables the multinational to evaluate and continuously improve individual, subsidiary unit, and corporate performance, against clearly defined, pre-set goals and targets.
- By adopting a performance management approach, multinationals are building on the goal-setting strengths of management-by-objectives and more traditional methods of performance appraisal.

Notes

- Data from performance management appraisal process is often used to determine pay and promotion, and training and development requirements.
- Performance appraisal in different nations can be interpreted as a signal of distrust or even an insult.
- One way to overcome the dilemma of cultural adaptation is to use host-country nationals to assist in devising a suitable system for appraising the local staff in the subsidiary and to advice on the conduct of the appraisal.

11.6 Keywords

Competitive Assessment: It is the process where employees are rigorously compared against each other.

Cultural Adjustment: Process of adjusting to the culture of the other country.

Development: It is the framework for helping employees develops their personal and organisational skills, knowledge, and abilities.

Expatriate: It is a person temporarily or permanently residing in a country and culture other than that of the person's upbringing or legal residence.

Off-line Performance Planning: It is done on the basis of certain predictions with regards to the business goals and activities.

Online Performance Planning: It is done in terms of clear business strategy and allocated funds.

Performance Appraisal: It is a tool which is used to appraise the performance.

Performance Management: It is a process for managing both behaviour and results of the performance.

11.7 Review Questions

1. While evaluating subsidiary performance in terms of market competitiveness, what are the constraints that may affect goal attainment?
2. "Performance Management is the most important responsibility of HR executives". Comment.
3. Analyse the variables that influence performance of expatriates internationally.
4. Being the corporate HR, examine the criteria you will use for performance appraisal of international employees.
5. Analyse the challenges which a corporate has to face in performance management internationally.
6. "The support provided by the headquarters to the expatriate and his family is an important performance variable." Do you agree? Justify.
7. Develop an integrated model for the management of the expatriate performance in your organisation taking in consideration all the critical variables affecting it.
8. Explain the relevance of the hard, soft and contextual criteria in performance management.
9. "Cultural adjustments are the important determinants of the expatriate job performance". Justify.

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10. Analyse the major constraints which the MNCs faces in performance management of its employees internationally.

Answers: Self Assessment

1.	False	2.	True
3.	True	4.	False
5.	True	6.	False
7.	False	8.	True
9.	True	10.	Analysis
11.	Roles	12.	Compensation
13.	Review	14.	True
15.	True		

11.8 Further Readings

Books

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Online links

http://www.managementstudyguide.com/performance-appraisal-and-performance-management.htm

http://www.scribd.com/doc/10421764/International-Performance-Management

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Unit 12: HRM in Cross-border Mergers and Acquisitions

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Objectives

After studying this unit, you will be able to:

- Discuss on mergers and acquisitions
- Describe the motives behind mergers and acquisitions
- Identify the risks involved in mergers and acquisitions
- Explain the HR interventions

Introduction

The rise of globalisation has exponentially increased the market for cross border M&A. In 1996 alone there were over 2000 cross border transactions worth a total of approximately $256 billion. Due to the complicated nature of cross border mergers and acquisitions (M&A), the vast majority of cross border actions have unsuccessful companies seek to expand their global footprint and become more agile at creating high-performing businesses and cultures across national boundaries. Mergers of companies with headquarters in the same country are also a type of cross-border Merger.

For example, when Boeing acquires McDonnell Douglas, the two American companies must integrate operations in dozens of countries around the world. This is just as true for other supposedly "single country" mergers, such as the $27 billion dollar merger of Swiss drug makers Sandoz and Ciba-Geigy (now Novartis).

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12.1 Mergers and Acquisitions (M&A)

Mergers and acquisitions refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

An acquisition is the buying of one company (the 'target') by another. It is also known as a takeover or a buyout. An acquisition may be friendly or hostile.

1. In friendly, the companies cooperate in negotiations.
2. In hostile acquisition, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer.
3. When a smaller firm will acquire management control of a larger or longer established company and keep its name for the combined entity, it is called reverse takeover.
4. When a deal enables a private company that has strong prospects and is eager to raise financing buys a publicly listed shell company, usually one with no business and limited assets to get publicly listed in a short time period, it is called reverse merger.

Achieving acquisition success has proven to be very difficult as it is a complex process with many dimensions influencing its outcome:

1. The buyer buys the shares and control of the target company it purchases. Ownership control of the company conveys effective control over the assets of the company. Simultaneously, it carries with it all of the liabilities accrued by that business over its past and all of the risks that company faces in its commercial environment.
2. The buyer buys the assets of the target company for which they pay cash to the target company. The cash the target receives from the sell-off is paid back to its shareholders by dividend or through liquidation. This type of transaction leaves the target company as an empty shell, if the buyer buys out the entire assets.
3. A buyer often structures the transaction as an asset purchase to "cherry-pick" the assets that it wants and leave out the assets and liabilities that it does not. This can be particularly important where foreseeable liabilities may include future, unquantified damage awards such as those that could arise from litigation over defective products, employee benefits or terminations, or environmental damage.
4. A disadvantage of this structure is the tax that many jurisdictions, particularly outside the United States, impose on transfers of the individual assets, whereas stock transactions can frequently be structured as like-kind exchanges or other arrangements that are tax-free or tax-neutral, both to the buyer and to the seller's shareholders.

Caution Merger is a combination of two companies into one larger company. It is commonly voluntary and involves stock swap or cash payment to the target. A merger can resemble a takeover but result in a new company name (often combining the names of the original companies) and in new branding. There are various types of mergers:

1. ***Horizontal merger:*** Two companies that are in direct competition and share similar product lines and markets (example: Sirius/XM)
2. ***Vertical merger:*** A customer and company or a supplier and company. (Example: an ice cream maker merges with the dairy farm whom they previously purchased milk from; now, the milk is 'free')

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3. ***Market-extension merger:*** Two companies that sell the same products in different markets (example: GTE and Bell Atlantic into Verizon).
4. ***Product-extension merger:*** Two companies selling different but related products in the same market (example: a cone supplier merging with an ice cream maker).
5. ***Co generic:*** Mergers in the same industries and taking place at the same level of economic activity-exploration, production or manufacturing wholesale distribution or retail distribution to the ultimate consumer. Example, Prudential's acquisition of Bache and Company
6. ***Conglomerate:*** Mergers between the unrelated business or two companies that have no common business areas.

Did u know? Accretive mergers are those in which an acquiring company's earnings per share (EPS) increase. An alternative way of calculating this is if a company with a high price to earnings ratio (P/E) acquires one with a low P/E.

Dilutive mergers are a merger whereby a company's EPS decreases. The company will be one with a low P/E acquiring one with a high P/E.

Self Assessment

Fill in the blanks:

1. Ownership control of the company conveys effective control over the …….. of the company.
2. An ……. is the buying of one company (the 'target') by another.
3. Acquisition is also known as a takeover or a ……..
4. When a smaller firm will acquire management control of a larger or longer established company and keep its name for the combined entity, it is called reverse ……..
5. When a …… company that has strong prospects and is eager to raise financing buys a publicly listed company may be with no business and limited assets, is called reverse merger.

12.2 Motives behind M&A

The following motives are considered to improve financial performance:

1. In order to gain access to global markets like Ranbaxy buyout of Terepia has given the buyer access to high growth markets like Romania and Eastern Europe.
2. To gain economies of scale in operations which means the combined company can reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.
3. To increase their market share, this in turn increases their revenue. The buyer by absorbing a major competitor will be able to increase its market power by capturing increased market share to set prices.
4. To gain synergy with the existing business of the buyer.

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Example: Videocon's acquisition of Thompson gave it a strong presence in the color picture tubes market. That will be complemented by the Daewoo's presence in areas like high-definition television and digital television.

5. To strengthen the buyers presence.

Example: Tata Tea's buyout of Tetley gave it a foothold in the UK market. The deal with Claceau will allow Tetley to enter the US market and gave Claceau a change to tap the UK market.

6. To reduce the levels of vulnerability.

Example: Tata Steel's buyout of Corus makes it a global top 5 player and reduces its risk to fluctuating prices. Rather it could also control the prices now.

7. Chances to be a global company through mergers and acquisitions is the motive for most of the firms.

Example: ONGC with the acquisitions of the oil-fields in Brazil and Syria is now a serious contender in the global oil and gas space.

8. Resources are unevenly distributed across firms and the interaction of target and acquiring firm resources can create value through either overcoming information asymmetry or by combining scarce resources.

9. Vertical integration occurs when an upstream and downstream firm merges (or one acquires the other). It internalises an externality problem.

Example: Such an externality is double marginalisation. Double marginalisation occurs when both the upstream and downstream firms have monopoly power; each firm reduces output from the competitive level to the monopoly level, creating two deadweight losses. By merging the vertically integrated firm can collect one deadweight loss by setting the upstream firm's output to the competitive level. This increases profits and consumer surplus. A merger that creates a vertically integrated firm can be profitable.

10. It helps in the reduction of the tax burden as profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability.

Example: In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company.

Caselet

Ranbaxy and Daiichi Merger

Daiichi Sankyo Co. Ltd. signed an agreement to acquire 34.8% of Ranbaxy Laboratories Ltd. from its promoters. Daiichi Sankyo expects to increase its stake in Ranbaxy through various means such as preferential allotment, public offer

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and preferential issue of warrants to acquire a majority in Ranbaxy, that is, at least 50.1%. After the acquisition, Ranbaxy will operate as Daiichi Sankyo's subsidiary but will be managed independently under the leadership of its current CEO and Managing Director Malvinder Singh.

The main benefit for Daiichi Sankyo from the merger is Ranbaxy's low-cost manufacturing infrastructure and supply chain strengths. Ranbaxy gains access to Daiichi Sankyo's research and development expertise to advance its branded drugs business. Daiichi Sankyo's strength in proprietary medicine complements Ranbaxy's leadership in the generics segment and both companies acquire a broader product base, therapeutic focus areas and well distributed risks. Ranbaxy can also function as a low-cost manufacturing base for Daiichi Sankyo. Ranbaxy, for itself, gains smoother access to and a strong foothold in the Japanese drug market. The immediate benefit for Ranbaxy is that the deal frees up its debt and imparts more flexibility into its growth plans. Most importantly, Ranbaxy's addition is said to elevate Daiichi Sankyo's position from #22 to #15 by market capitalisation in the global pharmaceutical market.

Source: ipfrontline.com

Self Assessment

State whether the following statements are true or false:

6. Motives behind merger and acquisition can be to gain economies of sale in operations.
7. Increase in market share is never a motive behind merger and acquisition.
8. Chances to be a global company through mergers and acquisitions is the motive for most of the firms.
9. Vertical integration occurs when an upstream and downstream firm merges (or one acquires the other).
10. Merger and acquisition can help in the reduction of the tax burden.

12.3 Risks Involved in M&A

M&A are very risky when done internationally as here are various reasons for the same:

1. It takes time to understand the global markets and companies often have to rely on the information provided by the secondary sources which may not be necessarily authentic.
2. Regulations in the global markets could be a dampener. Industries like healthcare, pharmaceuticals and energy are often regulated very closely by the foreign laws and regulations.
3. There is a danger of making acquisitions when an industry is on an upswing as the buyer could take a long time to recover investments if the cycle turns.
4. There are cultural integration issues which play a major role in adding risks to the international M&A different languages and sellers employees having new owners could be major hurdles.
5. Economic downturn in the global markets plays havoc with the buyers and will severely affects the business prospects and forecasts.

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12.3.1 Outbound Deals

Making outbound deals work can prove a minefield. The study reveals the following:

1. Sometimes it's difficult for a company to digest the fact that a company from a developing country wants to acquire them. They may fear that the Indian economy is overheated and worry about impact of a slowdown in India.
2. Foreigners are looked at with suspicion, and Indians particularly as third-world losers in some countries.
3. As ticket sizes increase from $1 billion to $10 billion, there could be a crunch when it comes to financing such deals.
4. There is a risk of customers and suppliers jumping ship when a foreign company acquires a local company.
5. Cultural issues are the biggest challenge for any cross-border acquisition. They can make or break a deal.

Indian promoters need to treat it with care:

1. Approach the local government.
2. Approach the worker counsel: take them into confidence and assure them of the growth prospects.
3. Spend time on pre-deal integration planning which could even reduce the deal size.
4. Gain confidence of the customers and suppliers.
5. Keep a close watch on competition. They may take advantage of the situation by ramping up production and trying to eat into market share.

Indian companies are using acquisitions as a strategy to get a global footprint. M&A is a great vehicle to put up a global outpost virtually overnight. A flurry of M&As has pitch forked some Indian companies into the global league.

Tata-Corus isn't just a one-off an Indian business house thinking, and acting big, Videocon Industries' $ 731 million bid for Daewoo Electronics, Dr. Reddy's acquisition of Betapharm in Germany for $ 572 million, Ranbaxy's $ 324 million buy-out of Terapia in Romania, and Suzlon Energy's $ 565 million purchase of Hansen Transmissions of Belgium are just some instances of Indian companies willing to shell out top dollar for instant access to foreign markets.

A host of mid and small cap firms in industries ranging from textiles, consumer durables, fast moving consumer goods and telecom to energy, automobiles, auto components and information technology are participating in the rush to cut an outbound deal. In 2005, the total number of outbound deals was 126, generating a total deal value of $ 4.3 billion. And during 2006 the value of the 175 outbound deals was nearly $ 20 billion.

Task Critically analyse the acquisitions which Tata Chemicals has made to establish the global footmark.

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Self Assessment

Fill in the blanks:

11. ……. downturn in the global markets plays havoc with the buyers and will severely affects the business prospects and forecasts.

12. …… issues are the biggest challenge for any cross-border acquisition.

12.4 Indian Joint Ventures

JV is a strategic business alliance for conducting the business globally. It is a separate legal organisational entity, controlled jointly by its partners and created by the investment of two or more parent firms.

Example: Ranbaxy has several JVs across the world in countries like Japan and South Africa. HCL Technologies still take the JV route, one of the few large IT services around such collaborations. The Delhi-headquarter IT services giant has had several JVs with companies like Deutsche Bank, Jones Apparel and NEC.

The crucial factors for the success of a JV are what each partner brings to the table, how complementary their respective skills are, and the understanding that the partners have about each other's needs. Factors that leads to the success of the joint ventures are:

1. It is a low-risk strategy where partners share the risk of a new venture.
2. Is helps the company to entry into new domains. An Indian player can enter or beef up his domain expertise with the help of a foreign partner who has been in the space. JVs are a back door route to client acquisitions.
3. Easy to acquire the local knowledge. Instead of reinventing the wheel, companies can ride on the experience of a local player who knows the ropes in foreign markets.
4. Hiring people is an easier proposition in a joint venture if the local company has a good reputation in the foreign market.

Example: The Chennai-based Sundaram Fasteners Ltd. (SFL) traditionally has not been a great believer in JVs. But in 2004, the leading auto ancillary manufacturer entered into a JV with Bleistahl Productions Gabh, Germany, to manufacture value chain parts in India. SFL invested 76% of the equity capital and Bleistahl chipped in with the rest. It was a first SFL and found that Bleistahl shared its vision of India being an outsourcing hub for manufacturing. In addition, Bleistahl agreed to transfer its assets, including production facilities to the JV. Bleistahl also chose to focus on marketing, allowing SFL to concentrate on its core manufacturing strength. So, SFL is ensured of a steady increasing export turnover and not worry about off take, sales and people aspects. SFL example is unique because it allows the company to target international markets by manufacturing out of India with some help from an overseas partner.

Most JVs are signposts that Indian companies use while exploring global markets. JV allows one to leverage the strengths of the partner who is well aware of the market dynamics and knows the rules of the game. In 2002, when Ranbaxy decided to enter Japan, the world's second largest pharmaceutical market, they decided to tie up with Nippon Chemiphar Limited of Japan to form a JV called Nihon Pharmaceutical Industry, Japan is amongst the most regulated pharmaceutical markets. Local knowledge is the key to success in Japan. The distribution system is very different in Japan. Other than language issues, in Japan, doctors dispense drugs. To

address the market, a well-connected local distribution partner is almost a prerequisite. Japan has also a unique pharmaceutical pricing system where the government reimburses medical agencies for drugs at an officially set price irrespective of the actual purchasing price. The alliance with Japan provided Ranbaxy a platform to gain experience of the Japanese regulatory framework and market environment.

Notes **Indian Greenfields**

Greenfield opportunity refers to a marketplace that is completely untapped and free for the taking. It is one of the market entry strategies being used by the companies to enter into the foreign markets. Unlike a JV, where the wealth of knowledge comes from the foreign partner, the experience of learning from scratch can be rewarding in the long run. An Indian company can embed itself far deeper in a foreign market with organic growth. A lone ranger foray will help a company maintain or adapt its organisation culture far easier than in the case of an acquisition where a company will have to tinker or make do worth what it acquires. If the local regulations are not well understood, companies can face a tough time with the authorities. Also, hiring staff can be an issue if the Indian player is not a removed one.

TCS wanted to enter China not as a JV, or as an acquisition. TCS wanted to learn China by itself. The company considered a few acquisitions before deciding to go on its own in China. In June 2002, TCS started its operations by setting up a wholly owned foreign enterprise in China. Headquartered in Shanghai and with its delivery centre in Hangzhou, TCS today employees 600 people in China, 95% of who are locals. TCS today knows how to hire, fire in China. It has an understanding of how the market works there because TCS started ground-up in China. That's the great thing about starting from the scratch, the progress might be painfully slow, and at times with pitfalls, but the learning is immense.

There is another way to be a multinational – by simply manufacturing in the country and exporting tonnes of the produce. Reliance Petroleum is setting up a refinery that will produce 29 million tonnes of oil a year – all for exports, specifically to the US and Europe.

Examples of Indian M&A's

1. ***Essel Propack Acquisitions:*** Essel Propack, its products being laminated tubes used to package toothpastes and medicines, is one of India's few companies with overseas clients, overseas bases, and overseas employees. The company has manufacturing facilities in 14 countries through 24 plants in geographies like China, the US, the UK, Russia, Germany, Mexico, Columbia, Venezuela, Philippines, Indonesia, Egypt, Nepal and Singapore, besides India.

   The company has been using a strategy of acquisitions and organic growth in foreign geographies to expand its footprint. Established in 1984, Essel made its first international foray with a joint venture in Egypt to manufacture laminated tubes. In 1997, the company formed a wholly-owned subsidiary in Guangazhou, China. The big move came in 2000, when Essel acquired the tubing operations of the Propack group, which was the fourth largest laminated tube manufacturer globally. Propack had operations in China, the Philippines and Columbia, Venezuela, Indonesia and Mexico, which immediately propelled Essel into the big league. In 2003, the company set up a manufacturing plant at Danville in the US to supply laminated tubes to Proctor and Gamble's North American operations.

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2. ***Tata Steel:*** Since mid to late 90s, British Steel mandated a well-known global investment bank with a specific brief to scout around for opportunities in the Indian subcontinent. One proposal the bank apparently made to British Steel involved picking up a majority stake in the country's largest private sector steel maker, Tata Steel. The deal did not materialise, and British Steel went on to merge with Koninklijke Hoogovens of the Netherlands in October 1999. Together they formed Corus, the same company that Tata Steel recently agreed to buy for $8 billion.

   Tata Steel-Corus transaction is best evidence of the hunger of Indian promoters to hog the global stage. It's also a confirmation of how one acquisition can transform the acquirer from a distant also-ran into a global giant to reckon with. From the mid-fifties in the global steel ranking, Tata Steel has pole-vaulted into the league of the top five steel producers worldwide. It reduces its risk to fluctuating prices. In fact, it could also control prices now.

   In the case of the Singapore-based NatSteel acquisition, Tata Steel had to integrate operations spread across seven different countries. It started out by creating platforms where learnings could be shared between the companies. Tata Steel is superior in steel making while SatSteel had better products and solutions for the construction sector. In both the NatSteel and Thailand-based Millennium Steel acquisitions Tata Steel retained the top management. The Tatas also succeeded in keeping back the CEOs and all employees, something that would not have gone unnoticed when Corus Steel was making up its mind on Tata Steel's merger offer.

3. ***Tata Tea:*** Tata Tea's buyout of Tetley gave it a foothold in the UK market. The deal with Glaceau will allow Tetley to enter the US market and give Glaceau a chance to tap the UK market. When Tata Tea zeroed in on bottled water marketer Glaceau in a landmark $677 million deal, the company's top brass glanced over a host of options. It scanned the market and looked through many companies.

   For a group with a stated objective of growing via the inorganic route, the Tatas have mastered the art of acquiring companies overseas, be it new business or those which are several times their own size. The key is to lock in the commitment of the target company's management towards future growth. Locking in management commitment has been the mantra of success for Tata Tea in its acquisition of Tetley, Jemca, Good Earth, Eight O' clock Coffee and recently, Glaceau.

   The Tatas have always opted for negotiated acquisition. They plan the entire integration process during the negotiation phase with emphasis on constant communication between the top management of both companies. They work with the management of target companies to identify areas of synergy and then set up joint teams for each of the identified areas to execute on the game plan. The objective is to show results in terms of operational improvements and cost savings.

Self Assessment

Fill in the blanks:

13. JV is a separate legal organisational entity, controlled jointly by its ……. and created by the investment of two or more parent firms.

14. Tata Tea's buyout of …… gave it a foothold in the UK market.

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12.5 HR Interventions in M&A

Despite the goal of performance improvement, results from mergers and acquisitions (M&A) are often disappointing. M&A performance is a multi-dimensional function. For a successful deal, the following key success factors should be taken into account:

1. Strategic logic which is reflected by six determinants – market similarities, market complementarities, operational similarities, operational complementarities, market power, and purchasing power.
2. Organisational integration which is reflected by three determinants – acquisition experience, relative size, cultural compatibility.
3. Financial/price perspective which is reflected by three determinants – acquisition premium, bidding process, and due diligence.

Post-M&A performance is measured by synergy realisation, relative performance (compared to competition), and absolute performance.

Since, M&A involves cross-border deals which vary in national cultures, work behaviour of employees, their attitude, perception, expectation and relationship dynamics which are modified and altered. So, whenever a company plans out a cross-cultural deal, it has to take in account the cultural differences of the concerned company and thus, the cultural pre-disposition of the employees therein. In such deals, the organisational and corporate culture plays a major role in designing the managerial attitude, decision-making styles, hierarchy pattern in the organisation, the policies and procedures in the company, etc.

The four dimensions of the national culture – Power distance, uncertainty avoidance, individualism and masculinity plays a grate role in determining the employee behaviour in a cross border deal. Power dimensions determine the nationality on certain issues like preference for centralisation, hierarchical level for the decision making, etc. Uncertainty avoidance guides the preference for the number of hierarchical levels and rigidity of the organisational systems. Individualism is the tendency of the people to look themselves and their immediate families only. This trait is very high in Americans where they value the individual decision over group decision. These cultural differences led to the failure on the part of the companies to understand each other, respect the differences in culture which ultimately leads to the failure of the cross-border deals. So, based on these traits, the HR policy in international deals is affected.

In order to contribute to the success of any M&A deal, HR must be involved in business critical decisions at the onset and contribute thoughts on likely issues or integration strategies. HR professionals understand the value they bring to the deal. Therefore, HR executives need to be able to speak the same language as the deal-makers, and demonstrate a clear understanding of the M&A process and the logic behind different types of deals. HR needs to be able to develop a people strategy that supports the deal structure.

Example: An organisation that typically doesn't communicate frequently or effectively will likely be less inclined to take the time to clearly articulate and share the real context of the deal beyond what goes to the market or the press.

Cultural integration is often the key to making the deal work. It is apparent that failed cultural integrations are often at the heart of merger difficulties. A 2004 Mercer transatlantic study of executives involved in M&A deals found that 75 percent of the executives cited "harmonising culture and communicating with employees" as the most important factors for successful post-merger integration. There is a need for the HR to take care of the national differences and regional information while designing the HR policies and facilitating the integration of the cultures between two companies in M&A deals.

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12.5.1 HRM Issues in Cross-border M&A

Following are the cross-border HRM issues which may arise in M&A:

1. Employee recruitment is a major issue in the cross-border deal. It include issues like rapid wage increase, staff turnover rate is high, poaching of the staff due to shortage I labour markets for the skilled workers and talented staff.
2. Reward system as there may be wage disparity between skilled and unskilled labour. Complex reward packages because if the social benefits, difficulty in introducing the pay differentials for the workers of similar status.
3. Difficulty in employee retention because of the shortage of the well-trained local staff which is now overcome by the control on the compensation and motivational techniques.
4. Management employee relations as the right to join trade unions, trade unions not adversarial and help to facilitate the operations by arranging courses and cultural activities.
5. Most important is the cross-cultural training and development programmes designing for the managers and the skilled staff to get the insight for the working of the objectives.

M&A's are the intensive activities that require the involvement of HR since the beginning. The key areas for the HR involvement are effective communication, cultural alignment, and change management plan, developing the staff model and developing the reward strategy for the new organisation. If not handled well, M&A can lead to the failures and wastage of the valuable resources. Issues which need to be addressed pertaining to the inadequate human capital assessment, identifying the key members of the management and bestowing the special attention to them. It is important to clearly communicate with all the employees about the merger and its implications on them due to the change in the management.

Issues like defining the specifications for the key roles and responsibilities, designing the adequate compensation and benefit strategies and managing the conflicts among managers also needs to be addressed. Managing the people in the international context is one of the biggest challenges which the companies and HR has to bear during the cross-border deals. Retention of the leadership and key talent, organisational restructuring, alignment of the compensation and benefit plans to ensure a cultural fit needs to be addressed in the first go without bearing a second thought in the mind by HR and corporates.

So, HR can add value to the M&A cycle in following ways:

12.5.2 Role Prior to Deal-(Pre-deal)

HR can support in following ways:

1. Help to identify issues/planning due diligence.
2. Plan due diligence for people/organisation cultural fit.
3. Help to educate the "deal" team.
4. Help to develop acquisition guidelines.
5. Due diligence.
6. Estimate people-related transaction costs.
7. Estimate people-related ongoing costs.
8. Identify/assess cultural differences.

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9. Estimate people-related savings.
10 Recommend HR policies and programs.

12.5.3 Integration Planning

Role of HR managers in integration planning:

1. Develop strategies for employee communications.
2. Design programs to retain key talent.
3. Plan and lead the integration effort.
4. Develop total rewards strategy for new entity.
5. Help new organisation cope with change.
6. Define organisation blueprint and staffing plan.
7. Monitor employee attitudes and engagement.
8. Manage selection and placement process.
9. Form people-integration teams.
10. Help to manage labour relations.
11. Advise on productivity/workforce synergies.
12. Recommend assessment/selection method.

12.5.4 Implementation

HR manager can facilitate the process of mergers and acquisitions by:

1. Aligning HR policies, programs, and practices with business practices.
2. Monitoring progress of people-related synergies and ensuring workforce momentum is sustained.
3. Ensuring incentive programs are designed to reward executives and key employees for achieving the goals of the merger.

HR should also encourage the new company's leaders to do the following:

- Recognise and reward behaviours that support the new culture.
- Consider cultural behaviours that support the new culture.
- Align culture with the vision and business strategy of the combined organisation.
- Identify the desired culture and gain agreement from senior management and opinion leaders of both organisations.
- Employee dissatisfaction to be avoided.
- Conduct common understanding programmes with the executive level employees of the company which is taken-over.
- Negotiate and make the Union Leaders understand about the entire issue and their future positions after M&A.
- Understand the Organisational Structure/Salary Structure and try to reduce the parity between the two companies.

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- Understand all the legal cases pending with the acquiring company and take full accreditation of the cases to take next steps.
- Proper retrenchment policy to be implemented for excess staff.

Self Assessment

State whether the following statements are true or false:

15. Post-M&A performance is measured by synergy realisation, relative performance (compared to competition), and absolute performance.
16. HR should encourage the new company's leaders to provide strict punishment to the ones that do not support the new culture.

Case Study

Asian Paints: Acquisition

In the case of Asian Paints, with 51% acquisition of Singapore Company Berger International in 2002, Vice Chairman and MD Dani says he was clear that his company will be choosy in its operations and not necessarily operate all the ten subsidiaries of Berger. In the four years since the acquisition, Asian Paints has sold three subsidiaries (in Malta, Philippines and Myanmar), Dani's motive is clear: to be present only in emerging markets and in markets that generate cash flows. "Surely, cultural issues play an important role in an acquisition. To handle this carefully, we spent time with the employees and worked as a team to thrash out the synergies such that the acquisition generates value", says Dani.

Critical size helps you spread your fixed cost. At the same time, one must always be prepared for making course corrections on the way. We exited out of our ventures in Martius and Malta because after operating for while, we found out that the growth of the paint market as well as the economy was stagnating. So, we took our call and I feel companies should always be prepared to make such decisions: but what counts in today's age is the speed of integration, opines Dani.

One of the most essential learning from the acquisitions was realising the importance of local knowledge. When the companies went abroad they realised that it was a whole new ball game; the market dynamics were all together different. They have to align their products and customer offerings to cater to each individual market. Along with local understanding, comes the core issue of localisation of talent and the need to develop a strong local cadre. A local workforce brings with it a better understanding of the market, operating environment and consumer preferences. The greatest challenge for Indian MNCs lies in the area of attracting and acquiring local talent for their overseas ventures. As Indian companies globalise, they have to acquire size and market share to stay afloat.

The process of integration follows an acquisition, but what counts in today's age is the speed of integration and how fast you are able to share organisational best practices within different units. Along with technology and intellectual integration, emotional integration is also critical, because in the end, one need to realise that while there are brands, there are also customers and there are employees.

Take for example Asian Paints. For its international operations, Asian Paints accomplished the process of clearing apprehensions about acquisitions through its various connect

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initiatives, where communication played a key role, followed by effective action. It is now implementing systems and processes to make these operating as efficient as any world class entity. Asian Paints has implemented ERP across its units to make the transaction process more robust. It has flown in people on special assignments, wherever any unit had any concern area, be it pertaining to supply chain, marketing or any other function. It has recently rolled out a mega operational efficiency initiative which focuses on issues like productivity, safety, environment, reducing factory level losses, planning and control systems, thus adding value to its acquired operations.

Questions

1. How did Asian Paints handle cultural issues in the acquired companies? What are its essential learnings from the acquisitions?
2. What steps did Asian Paints take in the process of integration following the acquisitions?
3. How did Asian Paints accomplish the process of clearing apprehensions about its acquisitions?

Source: Business Today, 3-12-2006.

12.6 Summary

- Mergers and acquisitions are the market strategies adopted by the companies to enter the foreign markets.
- M&A deals help the companies to develop a global foothold.
- Acquisitions also give size and a readymade platform to scale up the operations for the firms.
- Tata is the best example among the Indian companies to perform a large number of cross-border deals and establish a global footing.
- In the cross border deals, HR plays a major role in making the success of such deals.
- Cultural differences add to the difficulty in M&A deals.
- M&A's are the intensive activities that require the involvement of HR since the beginning.
- The key areas for the HR involvement are effective communication, cultural alignment, and change management plan, developing the staff model and developing the reward strategy for the new organisation.

12.7 Keywords

Acquisition: It is the buying of one company (the 'target') by another.

Co-generic: It is the merger taking place in the same industry and at the same economic level.

Concentric Mergers: It is a where two merging firms are in the same general industry, but they have no mutual buyer/customer or supplier relationship.

Conglomerate: It is the merger between the unrelated business or two companies that have no common business areas.

Consolidation Mergers: With this merger, a brand new company is formed and both companies are bought and combined under the new entity. The tax terms are the same as those of a purchase merger.

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Joint Venture: It is a strategic alliance in which two or more firms create a legally independent company to share some of their resources and capabilities to develop a competitive advantage.

Merger: It is a combination of two companies into one larger company.

Strategic Alliance: It is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organisations.

Target: The firm being solicited by the acquiring firm.

12.8 Review Questions

1. "Hope is not a strategy. People must have specific skills, knowledge, abilities, and experience in order to succeed in cross-border deals." Do you agree? Justify giving example.
2. Analyse the factors that led to the failure of M&A deals internationally.
3. You are a corporate manager at Tata Group. Critically examine the factors you must have taken in venturing abroad to acquire Corus.
4. What may be the critical issues that may crop up when a firm plans for M&A deals abroad?
5. "JV can be used as an entry strategy into a particular market or for purposes of risk mitigation." Justify.
6. Examine the factors that force the companies nowadays to venture abroad.
7. "There are risks involved in M&A's internationally." Analyse those risks giving examples.
8. "M&A's are the successful if they are a perfect blend of culture." Do you agree? Justify.
9. Elaborate the responsibilities of HR manager while making the cross-border deals.
10. Critically analyse the factors that Indian corporates must treat with utmost care while making the outbound deals.

Answers: Self Assessment

1.	Assets	2.	Acquisition
3.	Buyout	4.	Takeover
5.	Private	6.	False
7.	False	8.	True
9.	True	10.	True
11.	Economic	12.	Cultural
13.	Partners	14.	Tetley
15.	True	16.	False

12.9 Further Readings

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Unit 13: GHRM Trends and Future Challenges

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Objectives

After studying this unit, you will be able to:

- Discuss about global HRM trends
- List the challenges faced by GHRM
- Recognise the ethics in international business
- Elucidate on the significance of ethics for corporate
- Describe strategies of IHRM

Introduction

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

The question of ethical relativity arises where human rights are habitually violated. The question of ethical relativity arises not only in the context of different home- and host-country employment

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practices but also in the central operations and policies of multinationals. So, now we will understand the developments of international business ethics and the challenges they raise for HR professionals.

To exist in international environment, the HRM strategies need to be redefined, some of them are discussed in the unit.

13.1 Global HRM Trends and Future Challenges

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

- ***The importance of globalisation and integrating markets:*** Companies will become larger and more global in the coming years, handling operations in more countries than they do today. We're living in an increasingly borderless world.
- ***Talent management:*** Finding and retaining quality talent continues to be essential to business sustainability. Finding and retaining quality talent continues to be essential to business sustainability, though its importance in relation to other challenges differs by location. There are more contingent workers, and the rationale behind work force investment is changing and moving in multiple directions.

  Most industries and countries are to experience a widening talent gap, notably for highly skilled positions and for next generation of mid and senior leaders.
- ***Working virtually:*** Working virtually across functions and geographies will intensify, with implications for intercultural communication, business ethics and organisational effectiveness.

  Localising management of overseas operations is the key, but a global outlook is just as important as local knowledge. Businesses need to find new ways to connect people to each other and to information, both internally and externally. The expectation of having an "always-available" employee varies around the world.
- ***Tentative global employee engagement:*** Companies that have implemented multiple layoffs have eroded a sense of security in the global work force. There is a disconnection between what companies currently have to offer employees and what employees really value. Retaining valued talent is more important, but the drivers to retain that talent are different depending on the type of market (growth opportunity is paramount in growth markets; new or challenging responsibilities is paramount in mature markets).

  The gap in creative leadership, executing for speed, and managing 'collective intelligence' must be addressed. Employee engagement has suffered; companies are now trying to restore pride and trust.
- ***The economic crisis and fewer existing business opportunities:*** The crisis and fewer opportunities create a high demand on the global HR function to demonstrate greater adaptability.

  Human Resource (HR) will be an important link between corporate headquarters and overseas operations. HR is conducting too many initiatives, with mediocre outcomes. Companies need to reform their HR function and boost resources devoted to HR.
- ***Economic uncertainties:*** They fundamentally change motivators that attract and retain employees. There is an unbridged disparity between what companies have to offer employees and what employees really value.

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- ***Human capital protectionism:*** It may continue to increase in many countries in non-tariff, nationalistic forms.
- ***Global mobility of high-value workers:*** It continues as multinational companies restrict new hires and relocate talented employees from within their existing work force.
- ***Companies in emerging markets:*** Companies that originate in emerging economies will continue to succeed in the global marketplace.
- ***Increased demand for HR metrics:*** It may bring about a widely accepted set of analytic measures and methods (global standards) to describe predict and evaluate the quality and impact of HR practices and the productivity of the work force. However, globalisation is also driving impetus toward the use of more metrics with greater cultural sensitivity.

Notes **How can HR do more to manage these trends?**

First, Wallack says, as an HR professional, you must make sure your organisation understands what globalisation means to you, your company and your business sector — you must be the one to advocate full understanding of what the drivers are. It's important too, to keep in mind that globalisation means different things to different people across the world. Ernst & Young describes globalisation in The New Mindset as "the level of a country's integration with the world economy through the exchange of goods and services, movement of capital and finance, movement of labour, exchange of technology and ideas, and cultural integration." Martin Wolf, in Why Globalisation Works, sums it up more simply as, "economic integration across borders through markets." And every person you ask will probably define it a bit differently.

Did u know? A "global mindset" is often defined as a way of seeing the world and the globalisation of markets, organisations and individuals. Developing a more global mindset enables your organisation to be more effectively tackle functional, organisational, and cross-cultural boundaries and move forward.

13.1.1 Main Challenges in Global HRM

Some major challenges in GHRM have been summarised below:

- High failure rates of expatriation and repatriation
- Deployment-getting the right mix of skills in the organisation regardless of geographical location
- Knowledge and innovation dissemination-managing critical knowledge and speed of information flow
- Talent identification and development-identify capable people who are able to function effectively
- Barriers to women in GHRM
- International ethics
- Language (example, spoken, written, body)
- Different labour laws

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- Different political climate
- Different stage(s) of technological advancement
- Different values and attitudes example, time, achievement, risk taking
- Roles of religion example, sacred objects, prayer, taboos, holidays, etc.
- Educational level attained
- Social organisations example, social institutions, authority structures, interest groups, status systems

Self Assessment

State whether the following statements are true or false:

1. Finding and retaining quality talent is not very necessary to business sustainability.
2. International ethics is a major challenge in GHRM.
3. Barrier to women is permitted in GHRM, in international scenario.
4. Most industries and countries are to experience a widening talent gap mainly for highly non-skilled labours.
5. In global scenario companies should reform their HR function and boost resources devoted to HR.

13.2 Ethics in International Business

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

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

13.2.1 Global Values

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

Caution There are three main responses to this:

1. Ethical relativism
2. Ethical absolutism
3. Ethical universalism.

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The ethical relativist believes that there are no universal or international rights and wrongs. It all depends on a particular culture's values and beliefs. Thus if the people of Indonesia tolerate the bribery of their public officials, this is morally no better or worse than the people of Singapore or Denmark who refuse to accept bribery. For the ethical relativist, when in Rome, one should do as the Romans do. While ethical relativism may be appealing to those who fear cultural imperialism, it is a logical and ethically incoherent theory.

The ethical absolutist (or imperialist) believes one should continue doing what they will do in their home country. When in Rome, one should do what one would do at home, regardless of what the Romans do. This view of ethics gives primacy to one's own cultural values. But the opponents believe that ethical absolutists are intolerant individuals who confuse respect for local traditions with ethical relativism.

Some people's behaviours are wrong wherever they are practiced (e.g. bribery of government officials), other behaviours may be tolerated in their cultural context (e.g. the practice of routine gift giving between Japanese business people). When PCNs discover too late that the political-legal environment in which their home-country policies were formulated is significantly different from that of the host countries in which they operate, the results can be extreme.

Example: US expatriate bank manager in Italy who was applied by the local branch's recommendation to grossly under-report the bank's profits for income tax purposes and insisted the bank's earnings be reported in the same way as they would in the USA accurately. Later at the bank's tax hearing, he was told by the Italian Taxation Department that the bank owed three times as much tax as it had paid. This reflected the Italian Taxation Department's standard assumption that all firms under-report their earnings by two-thirds. The new assessment stood despite the expatriate's protests.

The ethical universalist believes there are fundamental principles of right and wrong which transcend cultural boundaries and that multinationals must adhere to these fundamental principles or global values. They can distinguish between practices that are culturally different and those that are morally wrong.

It has been identified that honesty, compassion, responsibility, freedom, respect for life and nature, fairness, tolerance and unity (family or community) are core global values to which people subscribe irrespective of race, culture, gender or religion. The challenge for business lies in incorporating them as core business values and aligning the staff to these values.

Example: The value of respect might include valuing differences (gender, sexual orientation, race, religion, etc.), sexual harassment prevention and understanding stereotypes as well as workplace safety, product safety and environment protection. The challenge for managers operating in diverse cultural environments is that different cultures will prioritise core ethical values differently and will translate values into specific behaviours differently. This is the main reason why cultures clash and is the essence of a true ethical dilemma. Like in USA, freedom is regarded as the most important global value whereas in Asia, family or community unity includes fairness, honesty and responsibility along with freedom and unity as top ethical values.

Did u know? **Caux Round Table Principles for Business Conduct**

It is the initiatives in international business self-regulation developed in 1994 by Japanese, European and North American business leaders meeting in Caux, Switzerland. This was the first international ethics code for business and aimed to set a global benchmark against

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which individuals firms could write their own codes and measure the behaviour of their executives. The Caux Principles are grounded in two basic ethical ideals: kyosei and human dignity. The Caux Principles aim to operationalising the twin values of living and working together and human dignity by promoting free trade, environmental and cultural integrity and the prevention of bribery and corruption.

13.2.2 Role of HR in Operationalising Corporate Ethics Programmes

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

Challenges for the HR Function of the Multinational Firm

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

1. When selecting expatriates, their ability to manage with integrity could be a job-relevant criterion.
2. The pre-departure training of expatriates and their orientation programme should include an ethics component.
3. This might include formal studies in ethical theory and decision-making as well as interactive discussion and role playing around dilemmas that expatriates are likely to encounter.
4. In an effort to sensitise managers to cultural diversity and to accept the point that home practices are not necessarily the best or only practices, there has been an emphasis in international business training on adapting to the way in which other cultures do business.
5. In designing training programmes to meet the challenges of multinational business, HR professional must raise not only the issue of cultural relatives but also the extent to which moral imperatives transcend national and cultural boundaries.
6. It is also important for the HR department to monitor the social (ethical) performance of its expatriate managers to ensure that as managers become familiar with the customs and practices of competition in the host country, they do not backslide into the rationalisation that "everybody else does it".
7. To avoid temptation to cut 'ethical corners', expatriates must not be placed under unreasonable pressure to deliver good financial results and they must be given feedback and reinforcement.

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8. Performance appraisals, compensation programmes and regular trips home are important instruments in developing and maintaining ethical cultures.
9. The HR department must also offer ongoing support to expatriates throughout their assignment. This is made relatively that an expatriate faced with a dilemma might have ready access to mentors at home or expatriates in other countries via these technologies.
10. Those involved in the management of HR would do well to consider these issues when developing organisational strategies and selecting, training and developing expatriates.

Notes **Managing Diversity at Procter & Gamble**

Procter & Gamble (P&G) was founded in 1837 by two brothers-in-law, William Procter – a British candle maker and James Gamble – an Irish soap maker. Today, the firm touches virtually every household in the industrialised world. Its global presence is demonstrated by 60 overseas plants sales operations in 140 countries.

P&G has a long track record of zealous attention to product quality, long-term perspectives, and social responsibility. The latter includes a corporate commitment to the diversity of its world force. It adheres to the philosophy that workforce diversity is not just a matter of social responsibility – it is simply good business. P&G promotes from within, so it places a premium on recruiting the best of the available job applicants.

In May 1988, P&G formed a Corporate Diversity Strategy Task Force to clarify the meaning of diversity, to articulate its importance to the survival of the firm, and to develop long-term strategies for the successful management of a diverse workforce in a diverse competitive environment. American consumers seem to approve of this and other P&G programmes, as documented by the 1995 Fortune Corporate Reputations survey which found P&G to be the seventh-most admired corporation in American.

Ethics across Cultures

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

Example: In 1985, when Reader's Digest (US) decided to close its loss-making Japanese subsidiary, it encountered savage opposition from the Japanese union and part of the press. They portrayed the parent company as being guilty of neglect and abandonment in the face of unswerving loyalty. The union placed ads in the New York Times saying that the company had dumped its Japanese readers and its own employees and that the company's behaviour was unfair, unscrupulous and irresponsible. The interests of shareholders and workforce did not correspond. Whereas the Japanese recognised the interest of workforce, the Americans prioritised the shareholders' interests. Each side appears to have behaved in accordance with its own ethical norms. Because cultures differ, behaviour considered appropriate in one culture may be interpreted differently in some other.

13.2.3 Global Developments on the Criminalisation of Bribery

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

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

1. Internationally, the movement to criminalise the practice of bribery was started when in 1977, the USA enacted the Foreign Corrupt Practices Act (FCPA) to prohibit US-based firms and US nationals from making bribery payments to foreign government officials. Payments to agents violate the Act if it is known that the agent will use those payments to bribe a government official. The Act was amended in 1988 to permit 'facilitating' payments but mandates record-keeping provisions to help ensure that those payments are not disguised as entertainment or business expenses.
2. In December 1996, the UN adopted the United Nations Declaration against Corruption and Bribery in International Commercial Transactions, which committed UN members to criminalise bribery and deny tax deductibility for bribes. A year later, the Declaration was endorsed by 30 member nations and four non-member nations of the OECD adopting the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD) Convention.

Did u know? **Cultural Imperialism** is the practice of promoting, distinguishing, separating, or artificially injecting the culture of one society into another. It can take the form of an active, formal policy or a general attitude.

13.2.4 MNC – Global and Good Corporate Citizen

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

1. Good citizenship
2. Respect for human dignity
3. Respect for basic rights
4. Equity

Applications of core human values to specific duties of multinationals include the adoption of adequate workplace and environmental health and safety standards, the payment of basic living wages, equal employment opportunity, refraining from the use of child labour, providing basic employee training and education, and allowing workers to organise and form unions.

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

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

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Example: When the percentage of pesticides/chemicals in Coke and Pepsi was found to be higher in India than in the US, there was nationwide coverage, although it was less than the amount found in local drinks.

The laws and social norms governing these factors may vary in different countries and compliance with them with better standards than local firms is necessary for a good image. The foreign subsidiaries should take particular care of:

1. Adulteration and loss of quality.
2. Environment and pollution control.
3. Employment of women, children and minorities.
4. Employment of local citizens.
5. Personal issues including remuneration, pension or severance benefits.
6. Management-union relationship.
7. Taxation and financial controls.
8. Purchase of local and foreign materials.
9. Purchase, lease, and location of buildings and plant.
10. Participate in local festivals and make liberal donations.

Ethical issues including human rights and environment protection are at the centre stage in today's world. This knowledge can be obtained from a study of the national legal system, religious practices and codes, study of organisations and their cultures, interviewing expatriates who have served in that country and gaining knowledge.

Ethical consumerism is the intentional purchase of products and services that the customer considers to be made ethically with a minimal harm to or exploitation of humans, animals and/or the natural environment. Ethical consumerism is practiced through 'positive buying' in that ethical products are favoured, or "moral boycott", that is negative purchasing and company-based purchasing.

13.2.5 Social Responsibility of MNCs

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

Corporate social responsibility is a form of corporate self-regulation integrated into a business model. CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. It is also known as corporate responsibility, corporate citizenship, responsible business, Sustainable Responsible Business (SRB), or corporate social performance.

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

1. Globalisation and rapid advances in information technologies;
2. The greater importance of citizen-driven activities, best seen in the work;

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3. Performed by Non-governmental Organisations (NGOs);
4. Greater social awareness among consumers;
5. Increased competition among corporations.

The growing interest in CSR issues has motivated entities – such as the United Nations, The Organisation for Economic Cooperation and Development (OECD) and assessment Organisations in Europe and North America – to establish and enhance standards that will serve as a benchmark for multinational corporate behaviour, and to strengthen mechanisms evaluating that behaviour.

In Japan, too, there is a growing realisation of the need for CSR. This is partly due to a series of corporate scandals that have prompted Japanese industry and the government to introduce a range of counter-measures.

Caselet

Case of Colgate Palmolive

A published case is that of the American company Colgate Palmolive. Many such American companies have developed social responsibility programmes in South Africa under the guidelines of the Sullivan Code. Its contributions have been to found various educational projects at schools and university and community projects. The list includes a number of health and dental projects. The management and allocation of funding to projects was a responsibility of the company-appointed management rather than being carried out by representatives of the various stakeholder communities stand to benefit from these projects. The code requires that the company directs 12% of its salary budget to such projects. The company had been criticised by the trade union for not involving them, and at times for funding projects, for example in the area of dental care, out of enlightened self-interest rather than altruism or a sense of what is required to contribute to the development of people within the community.

Source: Jackson, Terence (2002). *International HRM: A Cross-Cultural Approach.* Sage Publications Ltd. London.

Task

Critically examine the social responsibility undertaken by a big corporate – Tata Steel.

To achieve the goal of corporate social responsibility, HR professionals in multinationals may be required to:

1. Minimise the exposure of employees to corrupt conduct by assisting in the development, publication, and implementation of appropriate codes of conduct.
2. Ensure training programmes cover areas of ethical concern – such as bribery, human rights, justice, and the common good – in a manner consistent with the multinational's objectives in this regard.
3. Align performance appraisal and compensation systems so that they support the ethical stance taken.
4. Be conversant with the type of requests that may be made of staff operating internationally – not just expatriates but also those who visit foreign markets in various capacities – and

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provide the necessary training so that they have the requisite negotiating skills to handle problem situations that may arise.

5. Ensure that employees understand the difference between corrupt bribery payments, gifts, and allowable facilitation payments. Given the strong positions taken by governments on ethical behaviour, it is important that all staff is fully briefed on their responsibilities in this regard.

Self Assessment

State whether the following statements are true or false:

6. Cross cultural differences does not matter while international managers take decisions.
7. Bribery and corruption are frequent ethical problems encountered by international managers.
8. Ethics is not very important aspect for the business operating internationally.
9. Ethical relativists believe that the fundamental principles of right and wrong transcend the cultural boundaries.
10. The pre-departure training of the expatriates should include training on the ethical aspects of the subsidiary operating abroad.
11. FDI regulation also accounts for the implications of the ethics and social responsibility.
12. HR functions are responsible for many of the activities that build a sense of corporate identity.

13.3 Strategies of IHRM

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

13.3.1 Steps to a Global Human Resources Strategy

The scarcity of qualified managers has become a major constraint on the speed with which multinational companies can expand their international sales. The growth of the knowledge-based society, along with the pressures of opening up emerging markets, has led cutting-edge global companies to recognise now more than ever that human resources and intellectual capital are as significant as financial assets in building sustainable competitive advantage. To follow their lead, chief executives in other multinational companies will have to bridge the gap between their companies' human resources rhetoric and reality. HR must now be given a prominent seat in the boardroom.

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

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

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Very few companies come close to achieving this. Most multinational companies do not have the leadership capital they need to perform effectively in all their markets around the world. One reason is the lack of managerial mobility. Neither companies nor individuals have come to terms with the role that managerial mobility now has to play in marrying business strategy with HR strategy and in insuring that careers are developed for both profitability and employability.

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

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

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

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

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

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

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

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

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

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

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

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

   - Ethnocentric companies tend to be xenophobic — they put the most confidence in nationals of their headquarters country. This is why more nationals get the juicy assignments, climb the ranks and wind up sitting on the board — and why the company ends up with a skewed perception of the world. Relatively few multinational companies have more than token representation on their boards. A.B.B. is one company that recognises the danger and now considers it a priority to move more executives from emerging countries in Eastern Europe and Asia into the higher levels of the company.
   - Big distinctions can be found between expatriate and local national pay, benefits and bonuses, and these differences send loud signals to the brightest local nationals to learn as much as they can and move on.
   - Less effort is put into recruiting top-notch young people in overseas markets than in the headquarters country. This leaves fast-growing developing markets with shallow bench strength.
   - Insufficient attention and budget are devoted to assessing, training and developing the careers of valuable local nationals already on the company payroll.

   Conventional wisdom has defined a lot of the pros and cons of using expatriates versus local nationals. But in an increasingly global environment, cultural sensitivity and cumulative skills are what count. And these come with an individual, not a nationality.

> *Notes* All employees are local nationals of at least one country, but often they can claim a connection with several. More frequent international travel, population mobility and cross-border university education are increasing the pool of available hybrid local nationals. Every country-connection a person has is a potential advantage for the individual and the company. So it is in a multinational company's interests to expand the definition of the term "local national" rather than restrict it.

2. ***Trace your lifeline:*** Based on your company's business strategy, identify the activities that are essential to achieving success around the world and specify the positions that hold responsibility for performing them. These positions represent the "lifeline" of your company. Typically, they account for about ten percent of management.

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Then define the technical, functional and soft skills needed for success in each "lifeline" role. As Ms. Major of IBM notes, "It is important to understand what people need to develop as executives. They can be savvy functionally and internationally, but they also have to be savvy inside the organisation."

This second step requires integrated teams of business and HR specialists working with line managers. Over time, they should extend the skills descriptions to cover all of the company's executive posts.

Example: It took 18 months for IBM to roll out its worldwide skills management process to more than 100,000 people in manufacturing and development.

A good starting point is with posts carrying the same title around the globe, but local circumstances need to be taken into account. Chief financial officers in subsidiaries in different regions of the world, for example, should know how to deal with volatile exchange rates and high inflation. Unilever circulates skills profiles for most of its posts, but expects managers to adapt them to meet local needs.

Compiling these descriptions is a major undertaking, and they will not be perfect because job descriptions are subject to continuous change in today's markets and because perfect matches of candidates with job descriptions are unlikely to be found. But they are an essential building block to a global HR policy because they establish common standards.

The lifeline and role descriptions should be revisited at least annually to ensure they express the business strategy. Many companies recognise the need to review the impact of strategy and marketplace changes on high-technology and R&D roles but overlook the fact that managerial jobs are also redrawn by market pressures. The roles involved in running an emerging market operation, for example, expand as the company builds its investment and sales base.

Did u know? At IBM, skills teams update their role descriptions every six months to keep pace with the markets and to inform senior managers which skills are "hot" and which the company has in good supply.

3. ***Build a global database to know who and where the talent is:*** The main tool of a global HR policy has to be a global database simply because multinational companies now have many more strategic posts scattered around the globe and must monitor the career development of many more managers. Although some multinational companies have been compiling worldwide HR databases over the past decade, these still tend to concentrate on posts at the top of the organisation, neglecting the middle managers in the country markets and potential stars coming through the ranks.

Example: IBM has compiled a database of senior managers for 20 years, into which it feeds names of promising middle managers, tracking them all with annual reviews. But it made the base worldwide only 10 years ago. Now the company is building another global database that will cover 40,000 competencies and include all employees worldwide who can deliver those skills or be groomed to do so. IBM plans to link the two databases by 2000.

Unilever has practiced a broader sweep for the past 40 years. It has five talent "pools" stretching from individual companies (e.g., Good Humor Breyers Ice Cream in the United States and Walls Ice Cream in Britain) to foreign subsidiaries (e.g., Unilever United States Inc. and Unilever U.K. Holdings Ltd.) to global corporate headquarters. From day one, new executive trainees are given targets for personal development. Those who show the potential to move up significantly

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are quickly earmarked for the "Development" list, where their progress through the pools — company, national, business group and/or region, global, executive committee — is guided not only by their direct bosses but by managers up to three levels above. "We want bigger yardsticks to be applied to these people and we don't want their direct bosses to hang on to them," explains Herwig Kressler, Unilever's head of remuneration and industrial relations. To make sure the company is growing the general management talent it will need, the global HR director's strategic arm reaches into the career moves of the third pool — those serving in a group or region — to engineer appointments across divisions and regions.

To build this type of global HR database, you should begin with the Step 2 role descriptions and a series of personal-profile templates that ask questions that go beyond each manager's curriculum vitae to determine cultural ties, language skills, countries visited, hobbies and interests. For overseas assignments, HR directors correctly consider such soft skills and cultural adaptability to be as important as functional skills. The fact that overseas appointments are often made based largely on functional skills is one reason so many of them fail.

4. ***Construct a mobility pyramid:*** Evaluate your managers in terms of their willingness to move to new locations as well as their ability and experience. Most HR departments look at mobility in black-or-white terms: "movable" or "not movable." But in today's global markets this concept should be viewed as a graduated scale and constantly reassessed because of changing circumstances in managers' lives and company opportunities. This will encourage many more managers to opt for overseas assignments and open the thinking of line and HR managers to different ways to use available in-house talent.

Some multinational companies, for example, have been developing a new type of manager whom we term "glopats": executives who are used as business-builders and troubleshooters in short or medium-length assignments in different markets. Other multinational companies are exploring the geographical elasticity of their local nationals.

To encourage managerial mobility, each personal profile in your database should have a field where managers and functional experts assess where and for what purposes they would move. When jobs or projects open, the company can quickly determine who is able and willing to take them.

Managers can move up and down a mobility pyramid at various stages of their career, often depending on their family and other commitments. Young single people or divorced managers, for instance, may be able and eager to sign up for the glopat role but want to drop to a lower level of the pyramid if they wish to start or restart a family life. Or seasoned senior managers may feel ready to rise above the regional level only when their children enter college.

Example: IBM uses its global HR database increasingly for international projects. In preparing a proposal for a German car manufacturer, for instance, it pulled together a team of experts with automotive experience in the client's major and new markets. To reduce costs for its overseas assignments, IBM has introduced geographic "filters": a line manager signals the need for outside skills to one of IBM's 400 resource coordinators, who aims to respond in 72 hours; the coordinator then searches the global skills database for a match, filtering the request through a series of ever-widening geographic circles. Preference is often given to the suitable candidate who is geographically closest to the assignment. The line manager then negotiates with that employee's boss or team for the employee's availability.

The shape of a company's mobility pyramid will depend on its businesses, markets and development stage and will evolve as the company grows. A mature multinational food-processing company with decentralised operations, for example, might find a fiat pyramid

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adequate, whereas a multinational company in a fast-moving, high-technology business might need a steeper pyramid with proportionately more glopats.

5. ***Identify your leadership capital:*** Build a database of your company's mix of managerial skills by persuading people to describe the information in their C.V., their management talents and their potential on standard personal-profile templates. Jump-start the process by having your senior managers and those in the lifeline posts complete the forms first. Add others worldwide with the potential to move up. Include functional specialists who show general management potential.

   Require over time that every executive join the global HR system. This makes it harder for uncut diamonds to be hidden by their local bosses. Recognising that people's situations and career preferences shift over time, hold all managers and technical experts responsible for updating their C.V. and reviewing their personal profiles at least once a year.

   Companies should make it clear that individual inputs to the system are voluntary but that HR and line managers nevertheless will be using the data to plan promotions and international assignments and to assess training needs.

6. ***Assess your bench strength and skills gap:*** Ask each executive to compare his or her skills and characteristics with the ideal requirements defined for the executive's current post and preferred next post. Invite each to propose ways to close any personal skills gaps — for example, through in-house training, mentoring, outside courses or participation in cross-border task forces.

   Compare the skills detailed in the personal assessments with those required by your business strategy. This information should form the basis for your management development and training programs and show whether you have time to prepare internal candidates for new job descriptions.

Did u know? Unilever uses a nine-point competency framework for its senior managers. It then holds the information in private databases that serve as feeder information for its five talent pools. The company thoroughly reviews the five pools every two years and skims them in between, always using a three- to five-year perspective. In 1990, for example, its ice cream division had a strategic plan to move into 30 new countries within seven years. Unilever began hiring in its current markets with that in mind and set up a mobile "ice cream academy" to communicate the necessary technical skills.

7. ***Recruit regularly:*** Search for new recruits in every important local market as regularly as you do in the headquarters country. Develop a reputation as "the company to join" among graduates of the best universities, as Citibank has in India, for instance.

   The best way to attract stellar local national recruits is to demonstrate how far up the organisation they can climb. Although many Fortune 500 companies in the United States derive 50 percent or more of their revenues from non-domestic sales, only 15 percent of their senior posts are held by non-Americans.

   There may be nothing to stop a local national from reaching the top, but the executive suite inevitably reflects where a company was recruiting 30 years earlier. Even today, many multinational companies recruit disproportionately more people in their largest — often their longest-established — markets, thereby perpetuating the status quo.

   To counter such imbalances, a multinational company must stress recruitment in emerging markets and, when possible, hire local nationals from these markets for the middle as well as the lower rungs of its career ladder.

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Example: Philips Electronics N.V. gives each country subsidiary a target number of people to bring through the ranks for international experience. Some go on to lengthy international careers; others return to home base, where they then command more respect, both in the business and with government officials, as a result of their international assignments.

8. ***Advertise your posts internally:*** Run your own global labour market. In a large company, it is hard to keep track of the best candidates. For this reason, companies now advertise many of its posts on its worldwide Intranet.

   Routine internal advertising has many advantages in that it:

   - Allows a competitive internal job market to function across nationalities, genders and other categories.
   - Shows ambitious people they can make their future in the company.
   - Makes it harder for bosses to hide their leading lights.
   - Attracts high-flyers who may be ready to jump ship.
   - Helps to break down business-unit and divisional baronies.
   - Reduces inbreeding by transferring managers across businesses and divisions.
   - Gives the rest of the company first pick of talent made redundant in another part of the world.
   - Solidifies company culture.
   - Is consistent with giving employees responsibility to manage their own careers.

   There are also certain disadvantages to this practice: Line managers have to fill the shoes of those who move; a central arbiter may need to settle disputes between departments and divisions, and applicants not chosen might decide to leave. To prevent that, disappointed applicants should automatically be routed through the career development office to discuss how their skills and performance mesh with their ambitions.

   Did u know? IBM used to hire only from the inside, but five years ago it began to recruit outsiders — including those from other industries — to broaden thinking and add objectivity. Unilever is large enough that it can garner a short list of three to five internal candidates for any post. Yet it still fills 15 per cent to 20 per cent of managerial jobs from outside because of the need for specialist skills and because of the decreasing ability to plan where future growth opportunities will occur.

9. ***Institute succession planning:*** Every manager in a lifeline job should be required to nominate up to three candidates who could take over that post in the next week, in three months or within a year, and their bosses should sign off on the nominations. This should go a long way toward solving succession questions, but it will not resolve them completely.

   The problem in large multinational companies is that many of today's successors may leave the company tomorrow. In addition, managers name only those people they know as successors. The chief executives of many multinational companies keep their succession plans — if they have any — only in their heads. This seems to overlook the harsh realities of life and death. A better approach is that of one European shipping magnate who always carries a written list with the name of a successor for the captain of every boat in his fleet.

10. ***Challenge and retain your talent:*** Global networks that transfer knowledge and good practices run on people-to-people contact and continuity. Executive continuity also cuts

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down on turnover, recruitment and opportunity costs. As international competition for talent intensifies, therefore, it becomes increasingly important for companies to retain their good managers. Monetary incentives are not sufficient: the package must include challenge, personal growth and job satisfaction.

A policy should be adopted that invites employees to grow with the company, in every market. In addition, a career plan should be drawn up for every executive within his or her first 100 days in the organisation. And plans should be reviewed regularly to be sure they stay aligned with the business strategy and the individual's need for job satisfaction and employability.

Overseas assignments and cross-border task forces are excellent ways to challenge, develop and retain good managers. They can also be awarded as horizontal "promotions." This is particularly useful since the fiat organisations currently in fashion do not have enough levels for hierarchical promotions alone to provide sufficient motivation.

Unilever has long had a policy of retentive development and manages to hold on to 50 percent of its high-flyers. As an integral part of its global HR policy, it develops the "good" as well as the "best." Unilever reasons realistically that it needs to back up its high-flyers at every stage and location with a strong bench of crisis-proof, experienced supporters who also understand how to move with the markets.

Notes Unilever bases these policies on three principles:

1. Be very open with people about the company's assessment of their potential and future.
2. Pay people well — and pay those with high potential really well, even though it may look like a distortion to others.
3. Don't hesitate too long to promote people who have shown ability.

Sometimes this policy involves taking risks with people. But the point of a good system is to enable a company to place bets on the right people.

13.3.2 Make It Work

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

Notes As Rex Adams, former worldwide director of human resources at Mobil Oil, has commented, "The development of jobs and the people who fill them has to be the prime responsibility of line managers, supported by HR as diagnosticians and strategists."

Line managers will have to be won over to the business case for a multi-cultural mix, trained seriously for their career-development roles and offered strong incentives to implement world-class HR practices.

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Most multinational companies now do a good job of globalising the supply chains for all their essential raw materials — except human resources. Players in global markets can no longer afford this blind spot. Competition for talent is intensifying, and demand far outstrips supply. To have the multi-cultural skills and vision they need to succeed, companies will have to put into place programs that recruit, train and retain managers in all their markets.

If companies are to handle the challenges of globalisation and shift to a knowledge-based economy, they must develop systems that "walk their talk" that people are their most valuable resource. The purpose of a global HR program is to insure that a multinational company has the right talent, managerial mobility and cultural mix to manage effectively all of its operating units and growth opportunities and that its managers mesh into a knowledge-sharing network with common values.

Self Assessment

Fill in the blanks:

13. The scarcity of …… managers has become a major constraint on the speed with which multinational companies can expand their international sales.
14. Ethnocentric companies tend to be ……, they put the most confidence in nationals of their headquarters country.
15. The lifeline and role descriptions should be revisited at least annually to ensure they express the business ……..

Case Study

Promoting Diversity: The American Express Way

In January 2006, the American Express Company (AmEx) was featured on Fortune's 3 list of the '100 Best Companies to Work for' in America. AmEx was ranked ninth among large companies, and 37th in the overall ranking of the list of the best employers in the US. AmEx had been one of the regulars on this list in the early 2000s, and the company stood ninth in the overall ranking the previous year as well.

Fortune said AmEx's diversity initiatives, especially its policies related to women employees and minorities, made the company one of the best places to work for in the US. AmEx's commitment to minorities was also saluted by Black Enterprise, a magazine committed to the business and consumer issues of the African – American community, in July 2005.

The magazine included AmEx in its '30 Best Companies for Diversity' list. The 30 best companies were selected after the editors of the magazine conducted a detailed survey of more than 1,000 publicly traded American companies and 50 global companies with significant operations in the US.

AmEx was also appreciated by other mainstream magazines as well as those catering to minority groups and special interests such as Hispanic Business and Working Mother, for its diversity related policies (Refer Exhibit I for a list of the awards AmEx received in 2006 and 2005).

In the 1990s, diversity issues came to the fore in corporate America. Not only had a large number of women and minorities entered the workforce, but markets had also rapidly

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expanded beyond national boundaries, compelling companies to adapt their operations to diverse cultures and societies. In light of these developments, analysts suggested that for companies to continue growing, they would have to take full advantage of all the human resources and intellectual capital available to them.

Diversity was an integral part of the culture at AmEx. AmEx believed that focusing on diversity was one of the ways to gain competitive advantage in the rapidly expanding global markets.

Having a diverse workforce allowed AmEx to obtain a better understanding of the varied markets it operated in. Diversity has been defined in various ways by experts. The narrow definition, the one pertaining to the Equal Employment Opportunity Commission (EEOC) in the US, defined diversity in terms of gender, race, ethnicity, nationality, age, religion, and disability. However, over the years the concept of diversity widened to include parameters like marital status, language, sexual orientation and tenure with the organisation. AmEx embraced and promoted diversity in the broad sense, and its diversity initiatives covered a large number of groups including women, minorities, senior employees, people with disabilities, and homosexuals.

Despite AmEx's commendable diversity initiatives and the testimony of several satisfied employees, the company did not escape criticism. Over the years, AmEx had become involved in a few controversies related to discrimination.

One of the biggest controversies that the company faced was a class action gender discrimination lawsuit in 1999. During the late 1990s, several female advisors at AEFA complained to the EEOC that the unit's managers discriminated against them on the basis of gender, and showed preferential treatment to white males in terms of assignments, mentoring programs, promotions and compensation. They also said that they faced a sexually hostile environment at AEFA. Although the complainants were from different locations, their complaints were similar. Shirley Krieger from AEFA's New York office said that although she had worked at the unit for more than 13 years, her superiors had been trying to get her to resign saying that she was 'too old'.

Question

After analysing the study, can you suggest some measures to improve the HR measures?

Source: http://www.icmrindia.org/casestudies/catalogue/Human%20Resource%20and%20Organization%20Behavior/HROB083.htm

13.4 Summary

- When the business is conducted across national and cultural borders, the operationalisation of the enterprises ethics programme adds complexity.
- Challenge in the international business lies in incorporating the core business values and aligning the staff to these values.
- Challenges for the managers operating in diverse cultural environments is that different cultures will prioritise core ethical values differently and will translate values into specific behaviors differently.
- Culture shock develops as a result of a person working within a different and unknown cultural or social environment.
- Bribery and corruption are the most frequent ethical problems encountered by international managers.

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- Ethics and corporate social responsibility are important factors but complex issues.
- International managers must expect managers from other cultures to apply different criteria in making ethical decisions and that such choices are heavily influenced by each one's culture.
- The scarcity of qualified managers has become a major constraint on the speed with which multinational companies can expand their international sales.
- Good HR management in a multinational company comes down to getting the right people in the right jobs in the right places at the right times and at the right cost. These international managers must then be meshed into a cohesive network in which they quickly identify and leverge good ideas worldwide.
- The consequent lack of world-wide multi-cultural managerial talent bites into companies' bottom lines through high staff turnover, high training costs, stagnant market shares, failed joint ventures and mergers and the high opportunity costs that inevitably follow bad management selections around the globe.
- Based on the company's business strategy, activities should be identified that are essential to achieving success around the world and specify the positions that hold responsibility for performing them.
- Overseas assignments and cross-border task forces are excellent ways to challenge, develop and retain good managers.

13.5 Keywords

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

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

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

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

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

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

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

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

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

Talent Management: Finding and retaining quality talent continues to be essential to business sustainability.

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13.6 Review Questions

1. Analyse the areas of developments of international business ethics and the challenges they raise for HR professionals.
2. Being an HR manager, develop the strategies for the international HRM of an Indian subsidiary operating abroad.
3. Examine the emerging role of HR in operationalising corporate ethics programme.
4. Why nowadays corporates are becoming socially responsible? Explain by giving example of a big corporates.
5. Analyse the challenges for the HR formation of the international firm.
6. When a firm operates abroad, what are the ways in which a firm can create an image of the good and responsible corporate in the mind of the local community?
7. Develop the detailed HR plan which a manager should consider when sending his employees abroad for work in the subsidiaries.
8. How do you think that the problem of bribery and corruption leads to ethical dilemmas? Suggest the measures taken to deals with them.
9. Consider that your company has decided to send you abroad to manage its operations in a host country where bribery and corruption is common. Analyse the global values which you will follow.
10. Analyse the role and responsibilities of HR managers in achieving the corporate social responsibility for subsidiary operating abroad.
11. Describe in detail the IHRM strategies and how can these be made to work.

Answers: Self Assessment

1.	False	2.	True
3.	False	4.	False
5.	True	6.	False
7.	True	8.	False
9.	False	10.	True
11.	True	12.	True
13.	Qualified	14.	Xenophobic
15.	Strategy		

13.7 Further Readings

Books

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http://www.enterpriseintl.com/we_do_globalization_and_market_forces.html

http://www.marketing.bwl.uni-muenchen.de/4_lehre/veranstaltungen_auto/bachelor_wise/intl_marketing/pdfintmkt/lange_keydrivers2004.pdf

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Unit 14: Indian HRM

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Objectives

After studying this unit, you will be able to:

- Explain the concept of cross cultural leadership
- Recognise the significance of multi-cultural teams
- Identify the difference between Indian HRM with those of UK, USA, Japan and China
- Discuss about the drivers of contemporary Indian HRM trends

Introduction

Globalisation requires cross-cultural literacy and successful management of diversity. For successful entry and continuous growth in a foreign market, effective communication with the unfamiliar partner and adaptation to his culture is important. Though not much empirical evidence is available on the impact of cross-cultural literacy on the cost of doing business in foreign markets, it is fair to assume that cross-cultural literacy reduces the total costs of operating in foreign markets.

Over many centuries India has absorbed managerial ideas and practices from around the world. There has been considerable interest in the notion that managerial values are a function of the behaviours of managers.

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14.1 Cross-cultural Leadership

Global leadership is a complex process for the organisation. The success and failure of the global leaders depends on the extent to which they adapt themselves to the cultural orientation of the foreign countries. It is very important for the corporates to understand how leadership varies across cultures, so that they can adapt themselves culturally.

Leadership values are learned from the culture in which the individual is reared and they direct the person's behaviour. They represent the deepest level of a culture.

Example: The US managers placed high value on tactful acquisition of influence and regard for others. Japanese managers placed high value on difference to superiors, on company commitment and on the cautious use of aggressiveness and control. Korean managers gave importance to recognition of others. Indian managers placed high value on the non-assertive pursuit of objectives. Australian managers placed importance on values reflecting low-keyed approach to management and a high concern for others.

Leadership quality is highly dynamic concept which varies nationally due to perceived differences in the values and beliefs of the people internationally. Employees in a highly power-distance culture expect the managers to act as strong leaders as they are uncomfortable with the leaders delegating discretionary decisions. While some cultures want their leaders to act as decisive and directive experts; others want them to act as participative problem-solvers.

The leadership orientation of the managers varies across nations. These are due to the vast differences in the values between the national groups. Some managers are pragmatic and judge ideas in terms of whether they will work; others are highly ethical-moral and view ideas in terms of right or wrong; still others have a feeling-orientation and judge ideas in terms of whether they are pleasant; some have values that are related heavily to organisation life while others include a wide range of personal values. So there are many value patterns which affect the leadership qualities in the managers.

Leader plays an important role in the organisation. The extent to which they carry their status into the wider context outside the workplace through their professional activity is significant. Directive styles of leadership appear culturally inappropriate in northern Europe, North America, Australia and New Zealand. An employee participation programme failed in Russia, perhaps because of the national culture's disbelief and distrust in participatory programmes. On the other hand, the cultures of Sweden and Japan strongly support employee involvement in organisational activities.

Example: In France and Italy, managers carry their status into activities outside the workplace. But Danish and British managers are less able to apply their organisational status to influence their non-workplace relationships. This means a British manager can easily play under his subordinate in a club match than French or Italian managers. In Eastern and Middle-Eastern societies managers are expected to behave as managers even outside their workplace.

At the other extreme say in Sweden, it is more important that the manager be able to tap sources of expert power, perhaps elsewhere in the company, than give all the technical answers himself. This means that Swede working for an Indonesian company is frustrated by what perceives as inefficiency when an Indonesian co-worker refuses to ask an outsider for help. And when he does make an advance, he is censured by co-workers for lack of loyalty and respect. While the Swede uses the hierarchical structure to facilitate problem-solving the Indonesian values it as a means of signalling who has authority over whom.

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So when planning a project, the Swede first identifies places most value on social harmony and assesses the potential of the project on the basis of who will be involved in the different positions. In the Indonesian context, a group which does not observe social priorities and protect group interests, places individual interests in jeopardy, and the members cannot work together efficiently.

The similar and the significant leadership values that are found in the successful managers across the world are:

US managers: Highly pragmatic; high achievement and competence orientation; emphasis on profit maximisation, organisational efficiency and productivity.

Japanese managers: Highly pragmatic, strong emphasis on size and growth; high value on competence, achievement, dedication and loyalty to organisation.

Korean managers: Highly pragmatic and individualistic; strong achievement and competence orientation.

Australian managers: High moral and humanistic orientation; low value on achievement and success, competition and risk.

Indian managers: Highly individualistic, strong focus on transition compliance and competence.

Nevertheless, these similarities are too small compared to the vast inter-country differences. That is why the ideal managerial value system in one country is often not so ideal in another country. So, global managers must be flexible enough to change their approach and leadership style while working in cultures or geographical locations other than their home countries.

Notes **Manager as Expert vs. Manager as Facilitator**

In traditional Asian business, the superiors should be able to provide answers to technical questions. This is because subordinates cannot easily challenge their superiors' advice. They tend to value it above suggestions given by peers, whatever its quality.

Self Assessment

Fill in the blanks:

1. The success and failure of the global leaders depends on the extent to which they adapt themselves to the …….. orientation of the foreign countries.
2. Leadership values are learned from the culture in which the individual is reared and they direct the person's ……...
3. Employees in a highly …….. culture expect the managers to act as strong leaders as they are uncomfortable with the leaders delegating discretionary decisions.
4. …….. styles of leadership appear culturally inappropriate in northern Europe, North America, Australia and New Zealand.
5. An employee participation programme may fail because of the national culture's disbelief and …….. in participatory programmes.
6. …….. managers are highly pragmatic; high achievement and competence orientation; emphasis on profit maximisation, organisational efficiency and productivity.
7. Indian managers are highly …….., strong focus on transition compliance and competence.

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14.2 Multi-cultural Teams

International projects are successful only when emphasis is given to those factors that are particularly vulnerable in cross-cultural settings and on building the team capable of dealing with the challenge presented. It is common practice in bi-national projects to have formal authority shared by two people one from each country. The challenge in the international business and team building boils down to create a convergence of people differing personal inputs towards the set of common final inputs. This means developing a process that facilities communication and understanding between the people of different national cultures. Making this process happen signifies the difference between successes and failure of the international projects.

The secret is to transform the way people do things at the beginning of the project into more effective behaviour as the project moves along. This transformation initially involves identifying the inter-cultural differences among the parties. Once this is done, a programme of inter-cultural team building is called for in order to make the transformation take place. The result of the team building process is influencing the behaviour of the group toward meeting the project's goals. Inter-cultural team building thus calls for developing and conducting a programme that will help transform the participants' inputs into project outputs.

Experience in managing bi-national projects indicate that for cultural convergence to take place, managers of both sides need to understand the culture of the other, analysing the different patterns that make up that culture. This means learning about the other country's history, geography, economy, religion, tradition and politics. Both sides, therefore, need to become aware of the basic differences involving educational levels, professional experience, and experience on this kind of project, knowledge of language and host-country way of life.

Apart from this information, which can be readily obtained and assimilated, other perceptions must be taken into account, such as beliefs, feelings, informal behaviour patterns, group norms and values. All these factors strongly affect behaviour of project managers and team members. Cross-cultural team building must take place so that individuals' inputs can be channelled to meet the project goals.

The success of a project depends as much on the project leader as on the dynamics of the project team. A dynamic team is a high-performance team, one that utilises its energy to meet cost and time schedules and solves uncertainties that arise in project implementation by joint problem-solving and combined effort. All dynamic teams have certain characteristics which can be assessed or developed through team building exercises. They are as under:

(a) Builds upon individuals strengths

(b) Supports leadership and each other

(c) Develops team climate

(d) Resolves disagreements and communicates openly

(e) Makes objective decisions and evaluates its own effectiveness

In order to develop the cross-cultural teams, it is important that there should be a proper learning process. In the cross-cultural context, Hughes-Weiner qualifies the learning process described by Kolb as follows:

1. ***Concrete experience:*** people from different cultures are likely to have different backgrounds and different experiences.

2. ***Reflective observation:*** as a result of different behaviour patterns, socialisation and institutional and work experiences, individuals from different cultures may make different assumptions about what they see and understand through their experiences.

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3. ***Abstract conceptualisation:*** because people from different cultures have different cognitive frameworks, this may lead them to focus on irrelevant information or misinterpretations in a particular situation, thus drawing wrong conclusions and theories in a different cultural situation from their own.

4. ***Active experimentation:*** behavioural differences between cultures may lead to misinterpretations and misattributions of the meaning of such behaviour outside their own cultures, leading to confusion and frustration.

Notes A cross-cultural differences between British, Indian and East African managers in two broad learning styles shows: an 'analysis' orientation and an 'action' orientation.

The experiential model largely reflects approaches to management educational and training accepted in the Anglo-Saxon world which is based heavily on the concept of the independent learner, the instructor as facilitator and the value of interactive and experiential methods of education.

In order to partly overcome the problems of simply transposing the experiential model onto other cultures, Jackson reformulated the Kolb model. He proposes four learning modalities as follows.

1. ***Receptivity:*** learners are predominantly receptive to practical stimuli or theoretical stimuli for learning depending on their cultural backgrounds and their experiences in national educational systems.

2. ***Perception:*** learners are more intuitive about sorting and judging information, or are rational in a step-by-step approach in judging the quality of information that is the basis for making decisions.

3. ***Cognitive:*** learners are more subjective in the way that they make decisions and solve problems based on personal judgement, or base their decision making more on logic and scientific approaches.

4. ***Control (labelled 'behaviour'):*** learners prefer to rely on their own initiative, or on the direction of an instructor.

Results from surveying management 'learners' across the UK, France, Germany, Poland, Taiwan and Lithuania are discussed as follows:

Receptivity Modality: In the practical-theoretical dimension the main difference exists between the Polish and French groups, with the Polish management learners having an overriding preference for practical educational stimuli, whilst the French have a comparatively theoretical preference. The learners from Taiwan are the most socially oriented, expressing a preference for learning with others. The Lithuanian learners are somewhat different to the Polish on this dimension, in that they have a comparatively greater preference for learning from reading text, but prefer to explore how to do things rather than looking at underlying concepts. The British too are social learners with a preference for practical activity and learning by doing. The German learners express a preference for learning by doing and learning from simulations in the classroom.

Perceptual Modality: Again, on the intuitive-rational dimension, the Polish learners account for the major differences. They express an overriding preference for dealing with information and ideas in a rational way. British learners express this preference most strongly. Both Lithuanian learners and those from Taiwan express a preference more strongly for practicality over ingenuity.

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Cognitive Modality: The Poles and Lithuanians and German learners show the greatest preference for decision making through logical processes, with the learners from France, Britain and Taiwan being the most subjective in their approaches to making decisions.

Behaviour Modality: The learners from Poland and Taiwan show the greatest preference for an instructor-directed approach, with the Germans and Lithuanians the least so. The French have the least preference for self-initiated learning, with the Germans and then British preferring a self-initiated approach.

Did u know? Cultural cringe is an internalised inferiority complex which causes people in a country to dismiss their own culture as inferior to the cultures of other countries. It is related to the concept of colonial mentality, It can also be manifested in individuals in the form of 'Cultural alienation'. In many cases, cultural cringe, or an equivalent term, is an accusation made by a fellow-national, who decries the inferiority complex and asserts the merits of the national culture.

Self Assessment

Fill in the blanks:

8. It is common practice in …… projects to have formal authority shared by two people one from each country.
9. For cultural …… to take place, managers of both sides need to understand the culture of the other, analysing the different patterns that make up that culture.
10. The success of a project depends as much on the project …… leader as on the dynamics of the …… team.

14.3 HRM Practices in India and Other Nations

Human Resource is the most important asset for any organisation and it is the source of achieving competitive advantage. Managing human resources is very challenging as compared to managing technology or capital and for its effective management, organisation requires effective HRM system. HRM system should be backed up by sound HRM practices. HRM practices refer to organisational activities directed at managing the pool of human resources and ensuring that the resources are employed towards the fulfilment of organisational goals.

14.3.1 Human Resource Practices in India

Indian managers are more responsive to the human and bureaucratic consequences of their actions. They are more influenced by positions and approaches which utilise philosophical and moral justifications. They are more responsive to internal reward and controls. Because India has a larger proportion of moralistic managers, change in managers is likely to be slower and more difficult. Indian managers, at both middle and senior levels in organisations, possesses a belief in group-based, participative decision-making, but have little faith in the capacity of workers for taking initiative and responsibility. Indian managers favour labour and government intervention in the affairs of the organisation. Middle-level managers in India espouse a greater-belief in change and are less conservative.

In Indian culture, handshakes are acceptable but the most prevalent way of greeting is by putting both the palms together in front of the chest (namaste). Back slapping and touching are

not accepted at all. Indians are very tolerant of outsiders and acknowledge that there are unfamiliarity of local customs and procedures among them.

HRD practices in Indian companies attempt to blend Western and Eastern ideas and systems of people management. This concept of HRD attempts to be more comprehensive and meaningful. For foreign firms, part of the attraction has been the low cost of Indian labour. However, the competitiveness of India in terms of the availability, qualifications, and skills of its human resources is considered to be one of the lowest in the world.

Example: The Indian software industry is highly competitive – Indian firms do not just compete on price, but on the basis of quality, innovation, and technical expertise, and draw on a huge pool of relatively low-cost, technically-qualified, English-speaking software professionals. In 1996, 104 firms out of the Fortune 500 outsource their software development to India. About 10% of Microsoft's 20,000 worldwide workforces are Indian.

HRD places a premium on the dignity and respect of people and is based on a belief in the limitless potential of human beings. It stresses that people should not be treated as mere cogs in the wheel of production, but with respect.

Did u know? In a recent survey of Indian CEO's, it was suggested that Indian managerial leaders were less dependent on their personal charisma, but they emphasised logical and step by step implementation processes. Indian leaders focused on empowerment and accountability in cases of critical turnaround challenges, innovative challenges, innovative technology, product planning and marketing or when other similar challenges were encountered (Spencer, Rajah, Narayan, Mohan & Latiri 2007).

14.3.2 Human Resource Practices in U.S.A.

Most people in the United States work in the service sector, which accounts for 73% of all civilian employees, with only 24% in the manufacturing and transportation sectors and less than 3% in agriculture. The American workplace is undergoing radical changes in response to greater domestic and global competition, including work systems innovations that are designed to increase productivity, reduce costs and improve quality. New human resource practices are being implemented in work process design, employee stock ownership, outsourcing and contingent employment.

The identification of competencies required to do a particular job (such as finance manager in the motor industry), has become central to the way American companies recruit, appraise, train, reward and promote managers. This is apparent at industry level in the UK Management Charter Initiative that charts managers' competencies in terms of key purpose (organisational objective), key role (managing people, managing finance, etc.), and units of competence, elements of competence, and performance criteria and range indicators.

Hence a key purpose such as "to achieve the organisation's objectives and continuously improve its performance" will be traced down to the individual's behavioral level, and performance will be judged on prescribed criteria. Individuals can also be trained in these competencies where they have a deficiency. Thus selection, appraisal, reward, promotion and training systems can be lined into human resource management systems aimed at the achievement of organisational goals.

American managers are very individualistic and they value individual rewards and decision over group performance. They have relatively low power distance. They are not upset when

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others have more powers than they do. They are taught that everyone is equal, so they are not impressed by the important jobs/titles. They are optimistic about the people's motivation and capacities.

Americans believe that man has power to control nature and spend huge amount on space research, biotech, etc. they believe that self-identification is achieved through action and performance. They are low-context cultured society and ignore the non-verbal behaviour. For the American managers, the single most important criteria are to have a successful career is ambition, drive and a pragmatic individualistic achievement-oriented assessment system.

Caselet

HRM Problems

There is one company XYZ in which there are 4 employees Radha (26 yrs/Engaged to Avinash/working/Ambitious) John (bachelor, 20 yrs old) Avinash(30 yrs old/ Engaged to Radha, Dominating character) Aslam (45 yr old/married and settled in life/superior in the org)

Avinash doesn't want Radha to be working at his level. John is a buddy to Radha but still is jealous of her achievements. Aslam feels women should not be working, kind of having old mentality.

The management makes a decision to move the supervisor out of the org and make one of the 4 as the new supervisor. Radha is chosen as the new supervisor. The rest of the guys are not happy with her promotion.

Scenario – The business make a profit of 10 crores every year. And the last year it was 12 crores. Suddenly management says to her that she should make 10 crores in the next 2 quarters (6 months). Radha doesn't have any choice since if she doesn't make it Avinash will be promoted in her place. And Avinash is so upset with Radha that he will ditch her if she fails then. Also he is not happy to work under her as he is engaged to her.

Aslam is a senior guy and feels very bad to report to Radha, John is ok to report to Radha but has no respect for Radha. What would you suggest Radha should she reach out for help?

Source: http://toostep.com/idea/hr-case-study

14.3.3 Human Resource Practices in Japan

Human practices in Japan are characterised by lifetime employment and seniority-based pay and promotion. Japanese places a high stress on the security of the job as the basic social factor. Employees have largely been recruited from school levels or university graduates, rather than experienced workers trained by other companies. They are started at a lower level of pay. Their induction programme and training is designed to encourage them to conform, as well as developing skills. Regular pay increases and career advancement are provided on the basis of age and increases and career advancement are provided on the basis of age and length of service to the company.

Unions based on the enterprises and comprising all employees in the company regardless of job or occupation have been the dominant form of trade union and reflect the principles of loyalty, the corporate family and obedience. They are involved in wage bargaining and resolving workplace problems.

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Japanese system of human resource management reflects these principles and provides a more systematic appreciation of the connections between the various factors involved; strategies to internalise the labour market are based on the environment factors of relative stability including an ageing workforce as well as technological innovation.

The main features of the Japanese Human Resource management are community orientation, seniority-based promotion and salary system, class egalitarianism groupism, information sharing and employee participation, employment security and flexible job behaviour. Factors that are transferable to overseas subsidiaries are: community orientation, class egalitarianism, job security, and worker participation. Factors that are difficult to transfer are: group-orientation behaviour, wage and promotion seniority system.

Japanese are more anxiety-prone and have a high job stress. Employees place high premium on job security, career planning, and health insurance and retirement beliefs. They are more entrepreneurial, innovative and exhibit less emotional resistance to change. Japan has a high muscularity index and so it places a great importance on earnings, recognitions and challenges. They have a good orientation towards human nature. They focus on self-control. They follow an indirect style of communication and agreements between the members tend to be spoken rather than written.

Japanese methods and principles of people management focus on gaining mutual commitment of people and the corporation. The corporation is seen as a family that looks after its own. Motivation should be seen within the whole context of mutual loyalty and commitment. The way performance is both conceived and rewarded in western organisations by performance-related rewards, payment by seniority in Japanese organisations is valued as a way of rewarding commitment to the corporation.

Japanese managers are highly pragmatic, lay strong emphasis on growth and size. They value competence, achievement, dedication and loyalty.

14.3.4 Human Resource Practices in U.K.

The main features of UK human resource are summed up as follows:

1. A valuing of personal psychological privacy;
2. Denigration of emotional outbursts; being reserved;
3. Friendliness and sincerity;
4. Orderliness, patience and seeing a task through; well defined status and roles (class distinctions); little mobility and a preference not to make changes for the sake of change;
5. Making the best of things and playing the game right, not necessarily to win, but to ensure fairplay;
6. Love of humour, often as a device to lighten the occasion;
7. Politeness and modesty, as well as indirectness;
8. Regard for pragmatism and common sense in the work situation rather than precise rules, but a strong sense of order and tradition means rules that are spelt out will be obeyed;
9. Element of formality in the workplace between different levels;
10. Preference for well defined job functions;
11. Meetings are important and managers are expected to be good communicators;

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12. Individualism, which is reflected in non-conformity rather than competitiveness, but needing group consensus in order to make a stand;
13. Work is motivating when seen to be useful to self and others striving towards a common goal;
14. Social control based on persuasion and appeal to sense of guilt in transgressing social norms.

14.3.5 Human Resource Practices in China

A person who advances through the system beginning as a worker, then moving up to foreman and finally middle management will gain comparatively little power influence. Power structures are not well installed because of a lack of managers, and may come into shape as a result of necessity. The respect for hierarchy and authority may be rooted, together with a regard for age as a source of authority.

There is a strong avoidance of uncertainty among Chinese with a strong desire to maintain social order with a degree of predictability. The Chinese manager may well be motivated to save 'face' and to tell the other person what he wants to hear, rather than what may be regarded as the absolute truth in Western eyes. The concept of masculinity represents an emphasis on competition and the centrality of work in one's life which is lacking in the Chinese individuals. Chinese believes in guanxi which means good connections.

Collectivism is high in Chinese culture, with the main group of reference being the family. Praising an individual Chinese in public may embarrass them. China is characterised by long-term values such as thrift and perseverance. This is believed to sustain steady economic growth. Chinese employees now prefer reward differentials "determined primarily according to individual contributions" and there is greater acceptance of wider reward disparities based on individual performance.

The training and development function does exist in China. It is still passive and narrowly defined "in contrast to the Western HRM notion of planning for long-term staff development." Training is more focused on improving current performance deficiencies. The absence of career development plus a high emphasis on material incentives have partly contributed to the problems of high turnover and 'disloyalty' observed in many enterprises.

As more foreign multinationals expand their business into China, they have sought local management for their operations in order to develop a large corporate presence in China. When hiring Chinese nationals for executive jobs, many multinationals have found that Chinese managers lack decision-making skills and are wary of taking personal initiatives. Along with job-related skills, corporate management training programmes are required that provide HRM skills appropriate to the Chinese context and skills for problem-solving in high-pressure situations.

14.3.6 Indian HRM in Transition

One of the noteworthy features of the Indian workplace is demographic uniqueness. India will have a larger workforce than China in years to come. When India's young demographic bubble begins to reach working age, India will need far more jobs than currently exist to keep living standards from declining. India today doesn't have enough good jobs for its existing workers, much less for millions of new ones. If it cannot better educate its children and create jobs for then once they reach working age, India faces a population time bomb, the nation will grow poorer and not richer, with hundred of millions of people stuck in poverty.

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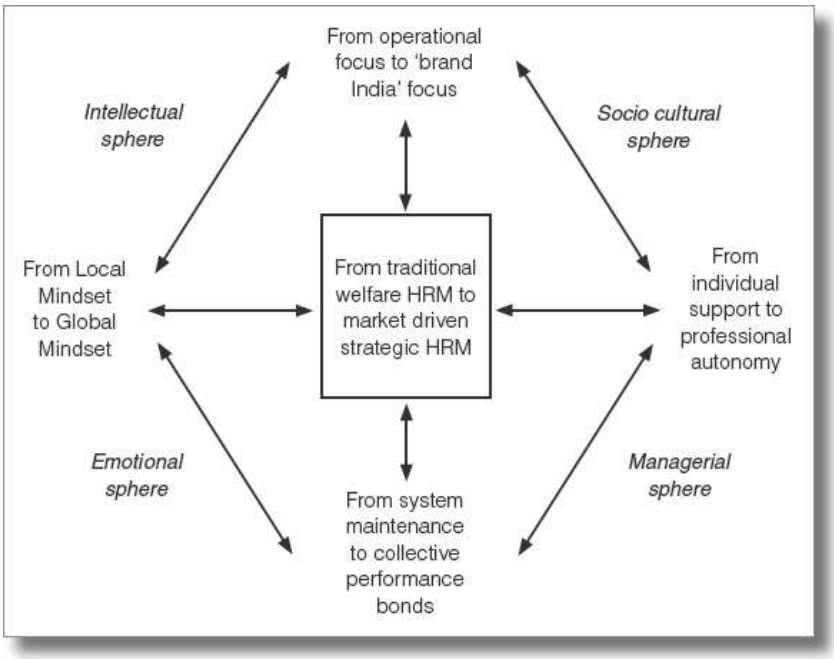
With the retirement age being 55 to 58 years of age in most public sector organisations, Indian workplaces are dominated by youth. Increasing the retirement age in critical areas like universities, schools, hospitals, research institutions and public service is a topic of considerable current debate and agenda of political parties.

The divergent view, that each society has a unique set of national nuances, which guide particular managerial beliefs and actions, is being challenged in Indian society. An emerging dominant perspective is the influence of globalisation on technological advancements, business management, education and communication infrastructures is leading to a converging effect on managerial mindsets and business behaviours. And when India embraced liberalisation and economic reform in the early 1990s, dramatic changes were set in motion in terms of corporate mindsets and HRM practices as a result of global imperatives and accompanying changes in societal priorities. Indeed, the onset of a burgeoning competitive service sector compelled a demographic shift in worker educational status and heightened the demand for job relevant skills as well as regional diversity. Expectedly, there has been a marked shift towards valuing human resources (HR) in Indian organisations as they become increasingly strategy driven as opposed to the culture of the status quo. Accordingly, competitive advantage in industries like software services, pharmaceuticals, and biotechnology (where India is seeking to assert global dominance), the significance of HRs is being emphasised. These relativities were demonstrated in a recent study of three global Indian companies with (235 managers) when evidence was presented that positively linked the HRM practices with organisational performance (Khandekar & Sharma 2005). In spite of this trend of convergence, a deep sense of locality exists creating more robust 'cross vergence' in the conceptual as well as practical domain.

Figure 14.1: Drivers of Contemporary Indian HRM Trends



Source: http://rphrm.curtin.edu.au/2007/issue2/india.html

Figure 14.1 presents the key drivers for contemporary Indian HRM trends. In Figure 14.1, there are four external spheres of intervention for HRM professionals and these spheres are integrated in a complex array within organisational settings. The intellectual sphere, which emphasises the

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mindset transaction in work organisations, has been significantly impacted by the forces of globalisation. Indeed, Chatterjee and Pearson (2000) argued, with supporting empirical evidence from 421 senior level Indian managers, that many of the traditional Indian values (respect for seniority, status and group affiliation) have been complemented by newer areas of attention that are more usually linked to globalisation, such as work quality, customer service and innovation. The most important work related attribute of the study was the opportunity to learn new things at work. Such cross verging trends need to be understood more widely as practitioners face a new reality of human resource development of post industrial economic organisations.

The other three spheres, of Figure 14.1, namely the emotional, the socio cultural and the managerial domains are undergoing, similar profound changes. For instance, the socio cultural sphere confronts the dialects of the national macro level reform agenda as well as the challenge of innovating by addressing the hygiene and motivational features of the work place. Consequently, this sphere has the opportunity to leverage work setting creativity in dimensions of autonomy, empowerment, multi-skilling and various types of job design. And the emotional sphere, which focuses on creativity and innovation to encapsulate the notions of workplace commitment and collaboration as well as favourable teamwork, brings desirable behavioural elements of transparency and integrity into organisational procedures and practices. The managerial sphere provides the mechanisms for shifting mindsets, for in Indian organisations HRM is viewed to be closely aligned with managerial technical competency. Thus, understanding of the relativity of HRM to strategic intended organisational performance is less well articulated in Indian firms. The current emphasis of reconfiguring cadres (voluntary and non-voluntary redundancy schemes), downsizing, delayering and similar arrangements will become less relevant as holistic perspectives gain ground. A hallmark of future Indian workplaces is likely to be a dominant emphasis on managerial training, structural redesign and reframing of institutional architectures to achieve enterprise excellence. Thus, a primary role of Indian managers will be to forge new employment and industrial relationships through purposeful HRM policies and practices.

Task You are the HR manager at UK based firm. Analyse the strategies you will use to get the work done from the people.

Self Assessment

State whether the following statements are true or false:

11. Indian managers are least responsive to the human and bureaucratic consequences of their actions.
12. In Indian culture, handshakes are acceptable but the most prevalent way of greeting is by handshake.
13. American managers are very individualistic and they value individual rewards and decision over group performance.
14. American managers have relatively high power distance.
15. Seniority-based promotion and salary system is a main feature of the Japanese Human Resource management.
16. People of UK value personal psychological privacy.
17. Chinese believe in individualism and strong avoidance of uncertainty.

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Case Study

Kiran Kumar ran from pillar to post for a loan to be sanctioned, for his project. Banks were not ready to fund his project. He desperately needed the seed money for his new venture, of starting his own software company. He understood the TINA syndrome – There Is No Alternative. So, he decided to sell his princely possession – his house, to fund his project.

In 1998, he started his dream company and christened it as 'Softtech', which had 45 employees and 60 terminals. Kiran's past experience in various IT companies helped him learn the nuances of this trade. Softtech survived the IT slump during the year 2000, the company kept thriving very well. By 2005, there were 700 employees working in two branches.

In India, the employability ratio is a mere 8: 100. In Tamilnadu alone around 80,000 engineering students remain jobless even 2 years after completing their course. Since, Softtech was relatively a small company; it did not attract the cream of students. Mediocre students also applied. However, Softtech preferred to recruit and select applicant's with at least a year of experience in their kitty.

At this juncture, a peculiar problem starred at the HR team of Softtech. Most of the credentials, such as the experience certificates submitted, were faked. There were small companies, which sold these certificates to students who had remained jobless over a period of time, to fill the time gap. The price, which these companies charged were nominal and several availed this shortcut.

The HR team was startled to know after some peering into the documents that, most of their current employees had also submitted fake documents. Candidates, who had applied, had also quoted false details about their work history, in their CV's. The HR team realised this was a common problem faced by the entire industry. How do we stop fake resumes doing the rounds, was the question in everybody's mind.

The HR team alerted the chairman Kiran Kumar about it. In an ad hoc meeting that was hurriedly convened, some suggested that the offenders must be flushed out, while others were afraid of finding replacements if that was done.

The company had a policy of selecting candidates with at least a year's experience. It was decided that the company's policy of selecting people with prior experience alone, be scrapped, save a few key designations.

Questions

1. Do you think that tampering the company's policy will solve the problem?
2. What are your suggestions to stop fake CV's doing the rounds?

Source: hrlink.in/news/faked-an-hr-case-study

14.4 Summary

- Global leadership is a complex process for the organisation. The success and failure of the global leaders depends on the extent to which they adapt themselves to the cultural orientation of the foreign countries.

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- Leadership quality is highly dynamic concept which varies nationally due to perceived differences in the values and beliefs of the people internationally.
- The leadership orientation of the managers varies across nations. These are due to the vast differences in the values between the national groups.
- Leader plays an important role in the organisation. The extent to which they carry their status into the wider context outside the workplace through their professional activity is significant.
- International projects are successful only when emphasis is given to those factors that are particularly vulnerable in cross-cultural settings and on building the team capable of dealing with the challenge presented.
- The secret is to transform the way people do things at the beginning of the project into more effective behaviour as the project moves along.
- Experience in managing bi-national projects indicate that for cultural convergence to take place, managers of both sides need to understand the culture of the other, analysing the different patterns that make up that culture.
- The success of a project depends as much on the project leader as on the dynamics of the project team. A dynamic team is a high-performance team, one that utilises its energy to meet cost and time schedules and solves uncertainties that arise in project implementation by joint problem-solving and combined effort.
- Human Resource is the most important asset for any organisation and it is the source of achieving competitive advantage.
- Japanese employees were discovered to have a higher work centrality than those in the USA, who had a higher work centrality than those in the former West German.
- Global companies should consider these differences across cultures for their success in managing the people internationally.

14.5 Keywords

Egalitarianism: The doctrine of the equality of mankind and the desirability of political and economic and social equality.

HRM Practices: HRM practices refer to organisational activities directed at managing the pool of human resources and ensuring that the resources are employed towards the fulfilment of organisational goals.

Human Resource Management (HRM): Human Resource Management is the process of managing people in organisations in a structured and thorough manner.

Individualism: A cultural dimension that focuses on the degree to which a society reinforces individual or collective achievement and interpersonal relationships.

Masculinity: This dimension pertains to the degree societies reinforce, or do not reinforce, the traditional masculine work role model of male achievement, control, and power.

Perception: The representation of what is perceived; a way of conceiving something.

Power Distance: Power distance is the extent to which less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally.

Uncertainty Avoidance: This dimension concerns the level of acceptance for uncertainty and ambiguity within a society.

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14.6 Review Questions

1. "The managerial style of leadership varies due to cultural differences." Justify this statement giving the contrasting role of leadership in international firms.
2. Describe in brief the cross-cultural leadership.
3. Enlist the significant leadership values that are found in the successful managers in different regions of the world.
4. What do you understand by multi-cultural teams?
5. "All dynamic teams have certain characteristics which can be assessed or developed through team building exercises." Elaborate.
6. Describe the learning process given by Kolb.
7. Comparatively study the human resource practices in India and USA.
8. How are human resource practices in Japan different and similar to Indian HRM?
9. Discuss the transition state of Indian HRM.
10. Discuss the human resource practices in China.

Answers: Self Assessment

1.	Cultural	2.	Behaviour
3.	Power-distance	4.	Directive
5.	Distrust	6.	US
7.	Individualistic	8.	Bi-national
9.	Convergence	10.	Project
11.	False	12.	False
13.	True	14.	False
15.	True	16.	True
17.	False		

14.7 Further Readings

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