

# INTERNATIONAL HUMAN RESOURCE MANAGEMENT

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Developed by:  
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**Printed and Published by:**

Mrs. Meena Pandey  
Himalaya Publishing House Pvt. Ltd.,  
"Ramdoot", Dr. Bhalerao Marg, Girgaon,  
Mumbai-400 004. Phones: 23860170 & 23863863, Fax: 022-23877178  
**Email: [himpub@vsnl.com](mailto:himpub@vsnl.com) Website: [www.himpub.com](http://www.himpub.com)**

**For:**

**Directorate of Distance and Continuing Education**  
Utkal University, Vani Vihar, Bhubaneswar - 751 007  
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**(S.P. Pani)**  
**DIRECTOR**

# SYLLABUS

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## **International Human Resource Management**

### **Unit-1**

IHRM Difference between Domestic and International Manager, Issues in IHRM, Developing, International Strategy, Understanding Culture, Its Coverage, Determinants, Cross-cultural Theory (Halls & Lorange).

### **Unit-2**

Cross-cultural Negotiations, Planning and Preparation Parameter, Types and Strategy of Organisational Culture.

### **Unit-3**

International Business and IHRM: Approaches, Globalisation Approaches, Globalisation and the Strategy, The Competency Required for International Managers.

### **Unit-4**

International Labour Market, Sources, Recruitment and Selection, Training, Types of Cross-cultural Training. Multinational Performance Management, Developing International Staff and Multinational Team.

### **Unit-5**

International Compensation System, Objectives, Approaches and Practice, Expatriation and Repatriation Process, Managing People in International Firms.

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# 1

## Unit

# INTERNATIONAL HUMAN RESOURCE MANAGEMENT: AN OVERVIEW

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### Objectives

This unit focuses on:

- Understand various concepts often referred in international human resource management;
- Know the meaning of expatriate, understand the confusions over the term and analyse the clarity over the concept;
- Analyse the issues causing the hiccups in defining the term international human resource management;
- Defining and analyzing the term international human resource management;
- Discuss the differences between domestic human resource management from international human resource management.

### Structure:

- 1.1 Introduction
- 1.2 What is International Human Resource Management?
- 1.3 Differences Between Domestic Business and International Business
- 1.4 Issues in HRM
- 1.5 International Business Strategies
- 1.6 Understanding Culture
- 1.7 Culture: Its Coverage and Determinants
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## Notes

**1.1 INTRODUCTION**

The term 'International Human Resource Management', (IHRM) creates an anxiety to know what is it, how does it differ from HRM, is it a synonym to cross-cultural management etc. Hence, we should know what is IHRM at the beginning itself. One should know the meanings of various terms that are quite often used in this book, before attempting to know the meaning of international human resource management. These terms include: Multinational Corporation, transnational company, home country, host country, home country nationals, host country nationals, third country nationals, expatriates, work permit and visa.

**Multinational Corporation (MNC):** MNC is an organization which operates in more than one country.

**Transnational Corporation (TNC):** TNC is an organization, that produces, markets, invests and operates across the world.

**Home Country/Parent Country:** Home country/parent country is the one where the headquarters of an MNC or TNC is located.

**Host Country:** Host the country is the one where the subsidiary/branch of an MNC/TNC is located.

**Parent Country Nationals/ Home Country(PCNs):** Parent country nationals/home country nationals are employees of an MNC/TNC who are the citizens of home country/parent country of that MNC/TNC.

**Host Country Nationals (HCNs):** Host country nationals are employees of an MNC/TNC's subsidiary/branch who are the citizens of the country where the subsidiary/branch of the MNC/TNC is located.

**Third Country Nationals (TCNs):** Third country nationals are employees of an MNC/TNC or their subsidiaries/branches, and are citizens of those countries other than the MNC/TNC's home country and/ or host country. For example, Mr. John Andrew - a Papua New Guinean – is working in Hindustan Lever Limited (a subsidiary of Uni Lever, USA) in Mumbai, India. Mr. John Andrew is called third country national.

Table 1.1 provides the advantages and disadvantages of different nationalities in MNCs.

**TABLE 1.1:  
THE ADVANTAGES AND DISADVANTAGES OF PCN, HCN AND TCN**

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



**Notes****Host-Country National***Advantages*

- Familiarity with the culture and environmental factors like socio-economic, political and legal environment and with business practices in the host country.
- Lower cost of staff.
- Provides opportunities for human resource development of HCNs leading to increase in their commitment and motivation.
- Responds effectively to the host country's demands for localization of the subsidiary's operations.

*Disadvantages*

- Difficulties in exercising effective control over the subsidiary's operations.
- Communication difficulties in dealing with headquarters.
- Lack of opportunities for gaining international and cross-cultural experience.

**Third-Country National***Advantages*

- Compromise between PCNs and HCNs.
- TCN are usually career international business managers.
- TCN are less expensive to maintain than PCN.
- TCN may be better informed about the host environment than PCN.

*Disadvantages*

- Host countries' sensitivity with respect to nationals of specific countries.
- Local nationals are impeded in their efforts to upgrade their own ranks and assume responsible positions in the multinational subsidiaries.

## 1.2 WHAT IS INTERNATIONAL HUMAN RESOURCE MANAGEMENT?

International human resource management is not a new concept and in fact it is not the emergence of recent phase of globalization. It is as old as the first phase of globalization. It is not the same with the management of cultural diversity. However, one should realize that the significance, popularity and complexity of international human resource management have been due to the current phase of globalization. In addition to globalization, the strides in information technology brought significant changes in the scope and dimensions of international human resource management.

### Meaning of IHRM

It is rather difficult to answer the question: What is international human resource management (IHRM)? as a number of implications are involved in it. For example:

- (i) A domestic company operating within the national boundaries employs some foreign employees/expatriates in addition to nationals of the country. Can we term this practice by a domestic company as IHRM?
- (ii) A multinational company having a branch office in a host country employs only the nationals of the host country. Can we call the practice of managing host country national employees by an MNC in its branch office as IHRM?
- (iii) A multinational company employs exclusively its home country nationals in its home country office/headquarters. Can we term this practice as IHRM?

## Notes

The answer to the practices listed above under (i), (ii) and (iii) are invariably come under the scope of IHRM as there would be certain elements of internationalization of human resource management practices. In addition, the HRM practices of a multinational or a transnational company employing home country nationals, host country nationals and third country nationals or any combination of these nationals invariably come under the practices of IHRM.

**Now, Another Question is:** Are there any differences in the functions of domestic human resource management and international human resource management? The answer is certainly 'Yes' as there are certain activities that should be performed when employees are drawn from foreign countries, viz., arranging for work permit, visa, cross-cultural management, socialization and deportation in times of emergencies. Most of these activities are related to 'immigration.'

In addition, certain other functions like resolving the disputes between domestic employees and expatriates, cross-cultural management in varying degree compared to domestic HRM (collaborating domestic employees and foreign employees) and additional services to expatriates are peculiar to IHRM.

Thus, the organizations dealing with international employees perform necessary immigration and other activities in addition to various HRM activities like procuring, developing, compensating, integrating and maintaining.

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

Thus, it is clear that IHRM deals with all functions of HRM in addition to performing other functions exclusively for expatriates. However, certain additional functions like resolving the disputes between domestic and foreign employees, cross-cultural management at varying levels and collaborating domestic employees and foreign employees are also to be performed under IHRM.

P. Morgan defines IHRM as the interplay among human resource activities (viz., procure, allocate and utilize) types of employees (viz., host-country nationals, parent country nationals and third country nationals) and countries (viz., host country, home country and others). (See Fig. 1.1) This definition is silent about certain human resource activities that are peculiar to IHRM like arranging for immigration facilities. In addition, this definition ignores the expatriates/foreign employees other than host country nationals, parent country nationals and third country nationals, i.e., foreign employees working in a domestic company.

In fact, this definition ignores those IHRM activities of a domestic company. However, it indicates 'other countries' under 'countries category' without mentioning 'other foreign employees' category of expatriates. This definition fails to reflect a comprehensive meaning of IHRM. Therefore, the earlier definition on IHRM seems to be comprehensive. This comprehensive definition on IHRM reads as follows:

IHRM is defined as, performing HRM and its related activities and arranging for related and necessary cultural and immigration facilities for prospective and current employees, by organizations operating in domestic and/or foreign countries. Fig. 1.2 depicts the model of IHRM as suggested by Subba Rao.

After knowing the meaning of IHRM, we would be eager to know how IHRM differs from domestic HRM. Now, we examine the differences between domestic and international HRM.

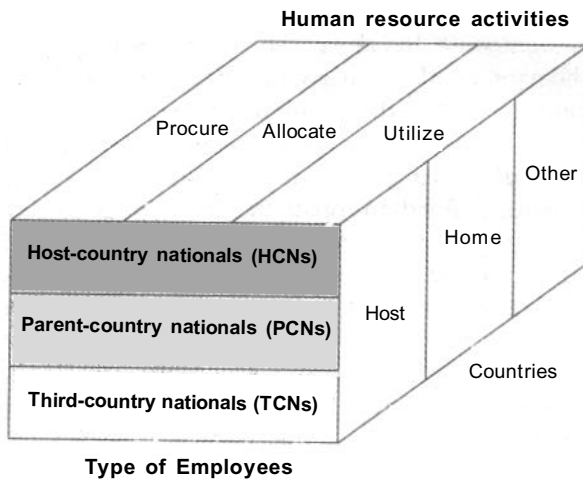


Fig. 1.1: A Model of IHRM (Morgan)

**Types of Organizations**

- Domestic organizations employing foreigners
- Parent companies
- Subsidiary companies
- Joint Ventures
- Other types of organisations operating in foreign countries

Types of Human Resources	International HR Activities
<ul style="list-style-type: none"> <li>• Domestic human resources/Nationals of the Host country</li> <li>• Parent country Nationals</li> <li>• Third country Nationals</li> <li>• Other types of foreign employees</li> </ul>	<ul style="list-style-type: none"> <li>• Procuring</li> <li>• Developing</li> <li>• Compensating</li> <li>• Utilizing</li> <li>• Immigration/Migration</li> <li>• Socialization Services</li> <li>• Security</li> <li>• Repatriation/Deportation</li> <li>• Cross-cultural management</li> </ul>

Fig. 1.2: IHRM Model (Subba Rao Pulapa, 2007)

International HRM is performing HRM activities by a domestic organization that employs foreigners along with nationals and by international/global/multinational/transnational organizations.

**1.3 DIFFERENCES BETWEEN DOMESTIC BUSINESS AND INTERNATIONAL BUSINESS**

Basically, domestic business and international business operate on similar lines. But there are certain differences between these two businesses. The significant differences between these two emerge from foreign exchange, quotas, tariff, regulations of a number of governments, wide variations in culture and the like. Table 1.2 presents the differences between domestic business and international business.

## Notes

TABLE 1.2: DIFFERENCE BETWEEN DOMESTIC BUSINESS AND INTERNATIONAL BUSINESS

S.No.	Domestic Business	International Business
1.	<b>Approach:</b> Domestic business's approach is ethnocentric. It does mean that domestic companies formulate strategies, product design etc. towards the national markets, customers and competitors.	International business's approach can be polycentric or regiocentric or geocentric. International business under polycentric approach enters foreign markets by establishing foreign subsidiaries. Under the regiocentric, they export the product to the neighbouring countries of the host country. Under the geocentric approach, they treat the entire world as a single market for production, marketing, investment and drawing various inputs.
2.	<b>Geographic Scope:</b> Domestic business's geographic scope is within the national boundaries of the domestic country.	Geographic scope of the international business varies from the national boundaries of a minimum of two countries up to a maximum of the entire globe.
3.	<b>Operating Style:</b> Domestic business's operating style including production, marketing, investment, R&D, etc. is limited to the domestic country.	Operating style of the international business can be spread to the entire globe.
4.	<b>Environment:</b> Domestic business mostly analyses and scans the domestic environment.	International business analyses and scans the relevant international environment.
5.	<b>Quotas:</b> The quotas imposed by various countries on their exports and imports not directly and significantly influence domestic business.	The international business has to operate within the quotas imposed by various countries on their exports and imports.
6.	<b>Tariffs:</b> The tariff rates of various countries do not directly and significantly influence the domestic business.	The tariff rates of various countries directly and significantly influence the international business.
7.	<b>Foreign Exchange Rates:</b> Foreign exchange rates and their fluctuations do not directly and significantly affect the domestic business.	Foreign exchange rates and their fluctuations directly and significantly affect the international business.
8.	<b>Culture:</b> Mostly domestic culture of the country affects the business operations including product design.	Mostly culture of various countries affects the business operations including product design of international business.
9.	<b>Export-Import Procedures:</b> Domestic business is not normally influenced by export-import procedures of the country.	International business is significantly influenced by export-import procedures of various countries. They need to follow those procedures.
10.	<b>Human Resources:</b> Domestic business normally employs the people from the same country. Therefore, the task of human resource management is not much complicated.	International business normally employs the people from various countries. Therefore, the task of human resource management is much complicated.

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11.	<p><b>Markets and Customers:</b> Domestic companies meet the needs of the domestic markets and customers. As such, it would be appropriate for them to understand the domestic markets and customers.</p>	<p>International business should understand markets and customers of various countries.</p>
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International HRM differs from domestic HRM in six major dimensions, viz., (i) wider nationalities of employees, (ii) variety of functions to be performed, (iii) influence of international environment, (iv) broader and deeper relationships, (v) different approaches for the domestic functions and (vi) enduring complexity of domestic HRM activities, as presented in Fig. 1.3.

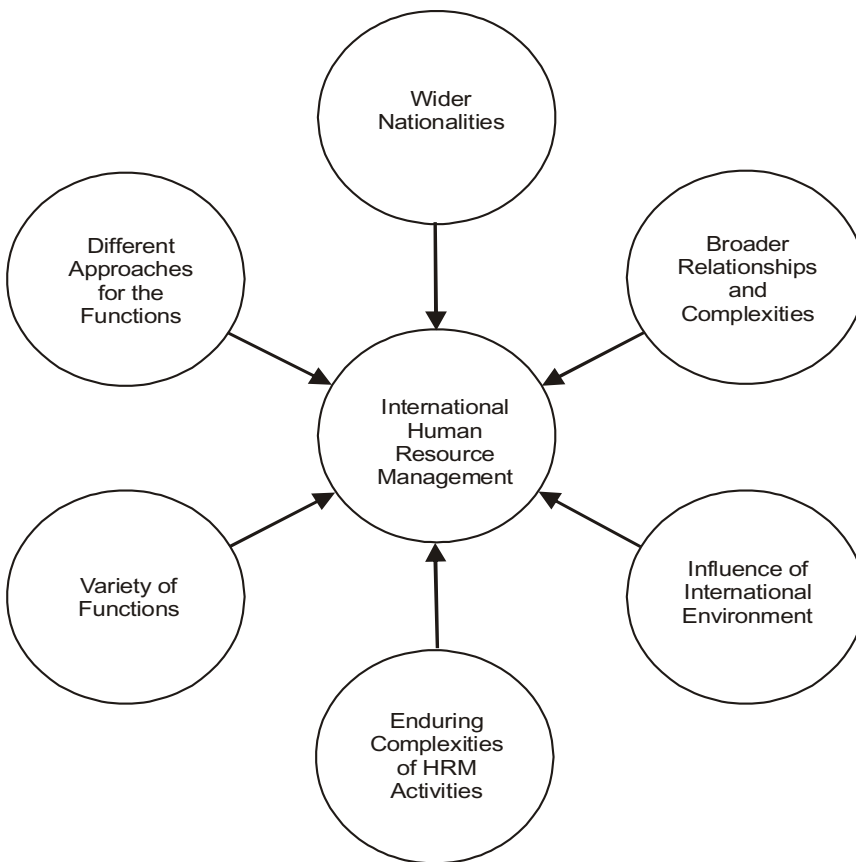


Fig. 1.3: Major Dimensions of IHRM – causing Differences from Domestic HRM

- 1. Wider Nationalities:** IHRM deals with the employees drawn from a number of nations in contrast to domestic HRM, where employees are drawn from one nation. People from different nations come with a variety of cultures, values, ethnical interpretations, religion beliefs and the like. Cultures and behaviour of people do also vary based on geographical regions. Nath and Sadhu summarized the four value dimensions of Hofstede based on geographic regions. According to the study conducted by Nath and Sadhu, North Americans are individualistic, low in power distance, medium in uncertainty avoidance, and masculine, whilst Japanese tend towards collectivism, high and low in power distance, high in uncertainty avoidance, masculine and feminine. Japanese respect authority, but at the same time

**Notes**

the superior must be a warm leader. Chinese tend to collectivism, low in power distance, low in uncertainty avoidance and lay emphasis on tradition and custom.

Exhibit 1.1 presents the cultural milieu.

Roneu and Shenkar, based on a synthesis of Hofstede developed eight country clusters grouped according to the similarities found in those studies of employee attitudes towards:

- Importance of work goals
- Need fulfillment and job satisfaction
- Managerial and organization variables
- Work Role and interpersonal orientation

The eight country clusters include: Nordic, Germanic, Anglo, Latin European, Latin American, Far Eastern, Arab, Near Eastern and independent includes India, Brazil, Japan and Israel. Exhibit 1.2 presents the clusters of countries based on attitudinal dimensions.

Fons Trompenaars conducted a research study based on four value dimension, viz., obligation towards personal and society, emotional orientation in relationship towards personal and society, involvement in relationships and legitimization of power and status. The countries were clustered as presented in Exhibit 1.3.

Findings of these three studies indicate that behaviour of the people vary according to the geographic region.

**Culture of Various Countries**

Now, we discuss the culture of various countries that influences IHRM.

**Japan:** Japanese culture that affects working relationship is based on 'peace and harmony'. Japan ranks high on pragmatism, masculinity, uncertainty avoidance and power distance. Japanese attach importance to loyalty, empathy and guidance of subordinates. They mix authoritarianism and humanism at work place like family system. Japanese prefer to co-operate and collaborate with their work groups. They emphasize on participative management, consensus problem solving and decision making. They avoid open expression and conflicts and shame of not discharging one's responsibilities. They show devotion to work, collective responsibility and high employee productivity. Exhibit 1.4 presents a comparison of Japanese and American culture that affects the behaviour of people at work place.

**America:** Americans are mostly individualistic. Their behavioural aspects include: risk-taking, bold initiative, acting spontaneously, outspoken, critical thinking, logical reasoning, clarity and frankness, confronting and threatening.

Therefore, there are wide conflicting situations in managing Americans in Japanese firms and Japanese in American firms. Americans offend the indirectness and sensitivity of Japanese who show the patience. Japanese think that Americans have no spiritual quality and little employee loyalty. (See Box 1.1).

**Germany:** Though the Germans rank high on individualism, the behaviour of Germans is less individualistic than that of Americans. They are high on uncertainty avoidance, masculinity and less on power distance. Germans prefer to around familiar people and situations. They denote on detailed evaluation before committing themselves. Germans are more of rule minded and strict with the use of time. Decision-

**Notes**

making is not highly centralized and in fact it is by consensus. They follow strict departmentalization, division of work, closed door policy and compartmentalization in organizations and at home. They are conservative, value privacy, politeness and formality. Germans discussions are lengthy as they need detailed information before and during negotiations. German is a low-context society and therefore communication is explicit.

**South Korea:** Koreans are high on collectivism and pragmatism, low on masculinity, moderate on power distance and high on uncertainty avoidance. They follow traditional Confucian teachings of spiritualism and collectivism. They respect family, authority, formality, class and rank in the society. They are aggressive, hard working, demonstrative, friendly and hospitable. They emphasize on family relationships, personal relationships, network etc. Business is based on honour and trust and most of the contracts are oral. Social and professional reputations are based on relationships. Koreans like praise but not criticism.

**Saudi Arabia:** "Islam 'Permeates' Saudi life. Allah is always present, controls everything, and is frequently referred to in conversation." Employees spend more than two hours a day in prayer. Work culture/behaviour is mixed with religion, politics and social life.

Arab culture has norms of reciprocity of favours, support, and obligation. Family relation and personal relations are close. Outsiders have to establish trusting relationship and honour before establishing any business relationship. Exhibits 1.5 and 1.6 present culture and behaviour in Saudi Arabia.

China: Small business is peculiar to China and the extended families run the small businesses. Members of the extended family are also the partners at different stages of the supply and value chain. Guanxi is prevalent in China, that indicates the network of relationships that the Chinese cultivate through friendship and exchange of favours and gifts to provide an obligation to reciprocate favours. Major differences between Chinese management style and Western management style are human centeredness that put people ahead of business relationship, but based on friendship, loyalty and trust. Exhibit 1.7 presents Chinese and Western Cultures and the Implications for Management.

**India:** Indians are high on collectivism in case of family relations and individualistic at work place. Family relations and social relations are strong. They are also high on power distance and masculinity. They respect family authority, social class and rank. They are aggressive, hard working, demonstrative, friendly and hospitable. They meet the challenges and thrive for goals. Business is based on trust and honest and most of the contracts are oral. Indians are loyal to the organization and profession (see Box 1.2).

**Implications:** Analysis of the culture of various countries reveals that behaviour of the people can be categorized based on the geographical region.

Human resource managers as well as line managers of organizations that employed people from foreign countries should understand the culture of the countries to which the employees belong, and manage their employees accordingly. In fact, many human resource issues are culture sensitive. In fact, HR managers and line managers are well aware of the culture of their country and therefore, need not know the cultures of other countries in managing the people in case of domestic HRM. Thus, IHRM is different from domestic HRM.

Now, we shall discuss, the next issue, i.e., broader relationships and complexities.

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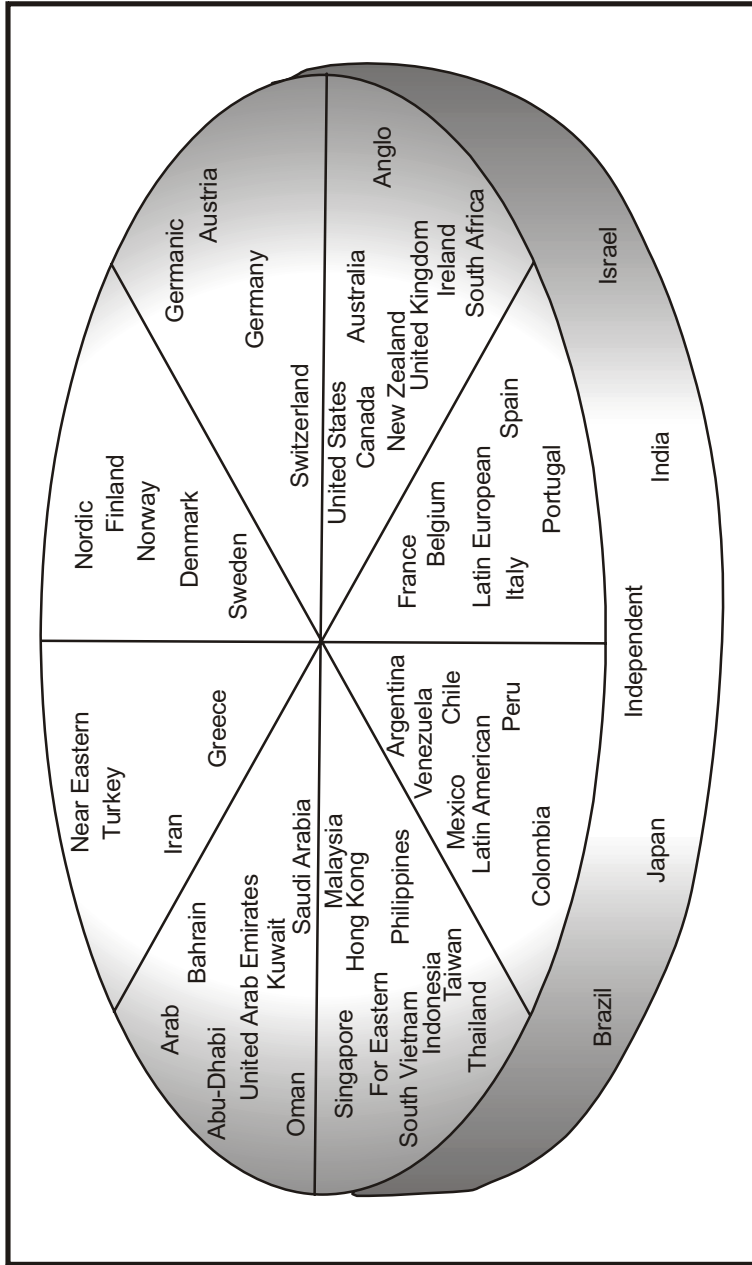
EXHIBIT 1.1: THE CULTURAL MILIEU

Region/Country	Hofstede's Dimensions				Other Dimensions
	Individualism-Collectivism	Power Distance	Uncertainty Avoidance	Masculinity-Femininity	
North America (USA)	Individualism	Low	Medium	Masculine	
Japan	Collectivism	High and low	High	Masculine and feminine	Amæe (mutual dependence): authority is respected, but superior must be a warm leader
Europe:					
Anglo	Individualism	Low/medium	Low/medium	Masculine	
Germanic	Medium individualism	Low	Medium/high	Medium/high masculine	
West Slavic					
West Urgic					
Near Eastern	Collectivism	High	High	Medium masculine	
Balkanic					
Nordic	Medium/high individualism	Low	Low/medium	Feminine	
Latin Europe	Medium/high individualism	High	High	Medium masculine	
East Slavic	Collectivism	Low	Medium	Masculine	
China	Collectivism	Low	Low	Masculine and feminine	Emphasis on tradition, Marxism, Leninism, and Mao Zedong thought
Africa	Collectivism	High	High	Feminine	Colonial traditions; tribal customs
Latin America	Collectivism	High	High	Masculine	Extroverted; prefer orderly customs and procedures

Source: Quoted in Helen Deresky, *International Management*, Prentice Hall of India (P) Ltd., New Delhi, 2004, p.98.



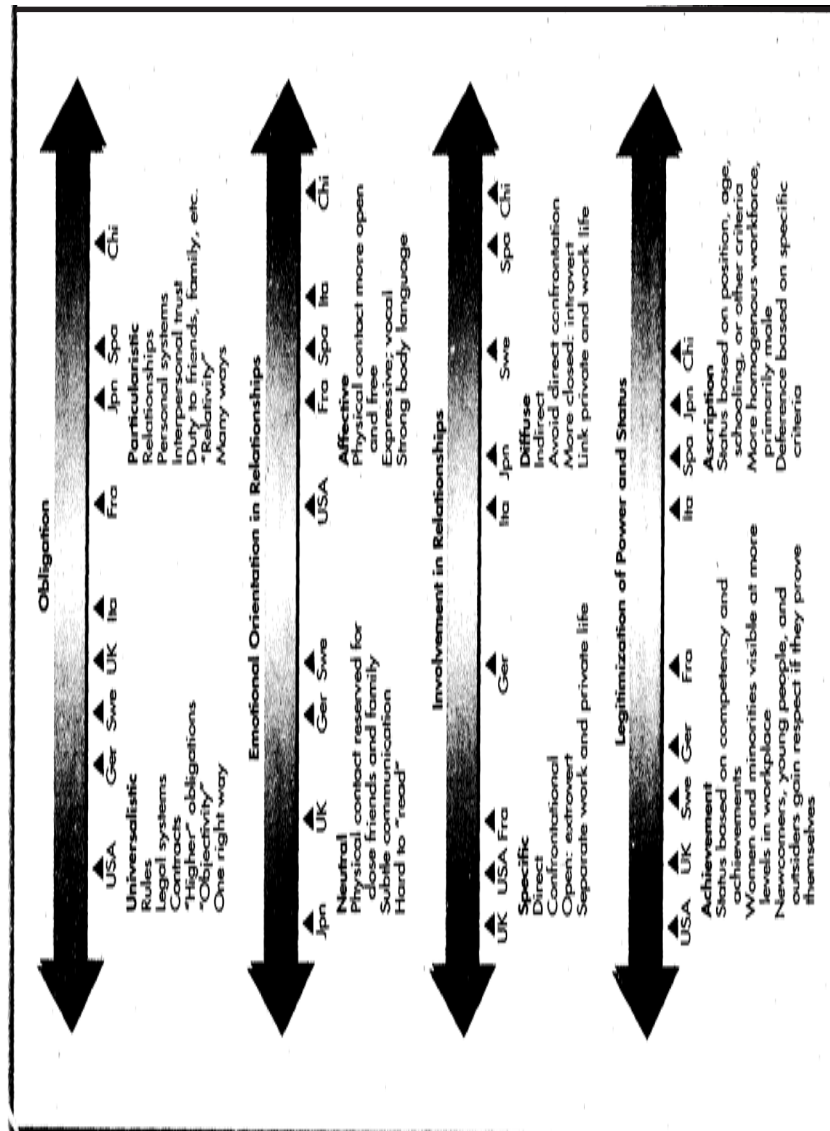
EXHIBIT 1.2: CLUSTERS OF COUNTRIES BASED ON ATTITUDINAL DIMENSIONS



Source: S. Ronen and O. Shenkar, "Clustering Countries on Attitudinal Dimensions: A Review and Synthesis", Academy of Management Review (September 1995): p. 449, Quoted in Helen Deresky, *op. cit.*, p. 99.

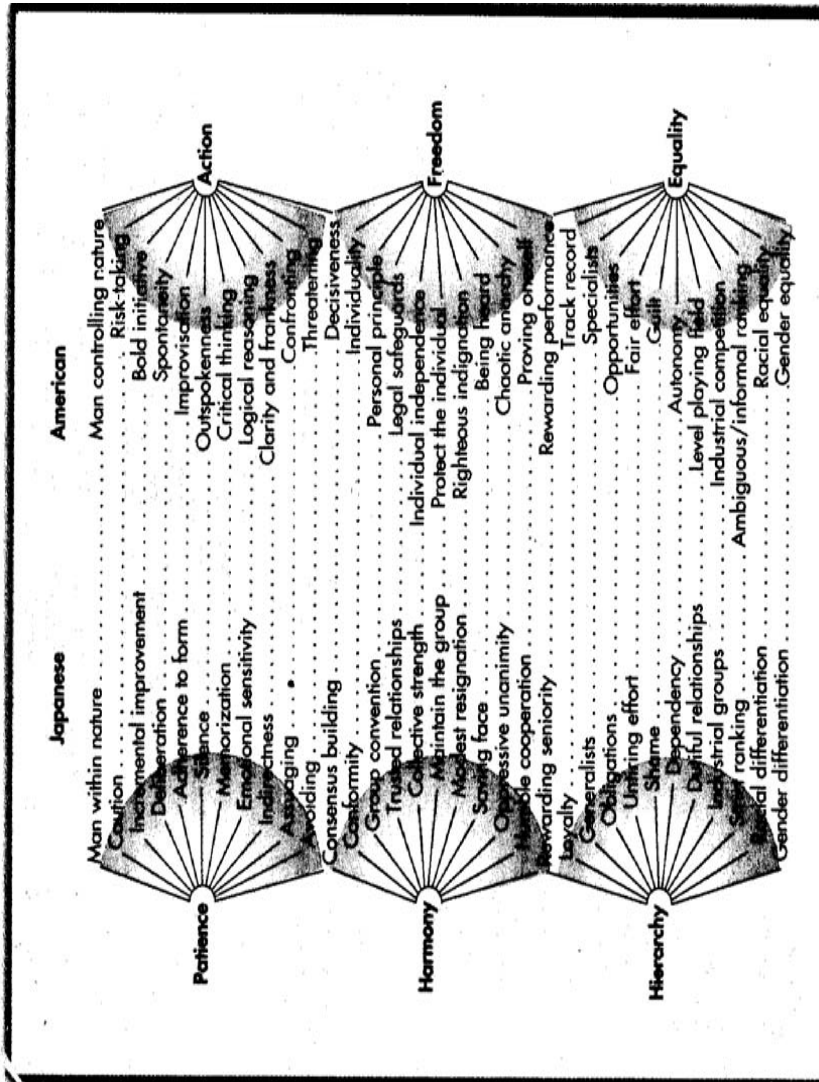
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EXHIBIT 1.3: TROMPENAARS' VALUE DIMENSIONS



Source: Adapted from Lisa Heacocklin, *Managing Cultural Differences* (Wokingham, England: Addison-Wesley), and *The Economist Intelligence Unit*, 1995. Based on Trompenaars, 1993. Quoted in Helen Deresky, *op.cit.*, p. 100.

EXHIBIT 1.4: THE AMERICAN-JAPANESE CULTURAL DIVIDE



Source: R. G. Linowes, "The Japanese Manager's Traumatic Entry into the United States: Understanding the American-Japanese Cultural Divide". The Academy of Management Executive VII, no. 4 (November 1993), p. 24. Quoted in Helen Deresky, *op.cit.*, p. 108.

## Notes

## BOX 1.1: DIVERSITY IS BIG BUSINESS AT THE PEPSI BOTTLING GROUP

PBG is currently seeking diverse engineers and IT pros for its New York State HQ, forty-five plants in the U.S. and another fifty plants worldwide. When the Pepsi Bottling Group (PBG) spun off from PepsiCo and became a publicly-traded company in 1999, it had an opportunity to develop new diversity strategies. The result is a global company that puts diversity first both with its employees and with its customers and communities.

"We are very customer-focused, because we're selling to the people who distribute our products," says Cecilia McKenney, group VP of HQ HR. Part of the group's diversity goal is to create a competitive advantage in the marketplace, she explains. "Selling soda in local markets means having a substantial Cuban-American workforce in Miami and Asian Americans in San Francisco. We want to look like the marketplace," McKenney says. PBG is actively seeking diverse engineers and IT pros for HQ, forty-five U.S. plants and fifty more plants worldwide. PBG sells more than half the Pepsi-Cola beverages sold in North America and 40 percent of Pepsi-Cola beverages worldwide. That includes manufacturing, selling and delivering Pepsi-Cola products like soda, Aquafina bottled water, Tropicana juice drinks, Lipton iced tea, Starbucks Frappuccino and Double shot, the SoBe line of beverages and Dole single-serving juice and blends.

It all adds up to nearly 200 million glasses of these beverages a day in the U.S., Canada, Mexico and Europe. And PBG also sells regional products in Greece, Mexico, Russia, Spain and Turkey, and does some distribution for other beverage companies. PepsiCo makes and sells the syrup PBG uses to make soda, and provides marketing and advertising support. When PBG was formed, it took more than three quarters of the employees of Pepsi-Cola Co, and PepsiCo retained 40 per cent ownership of PBG. The group has grown since the spin off. "We continue to increase our distribution of Pepsi products through acquisition of other bottlers," McKenney says.

PBG puts its diversity principles into practice with a diversity advisory board made up of execs from each business unit and from headquarters. The board includes minorities and women and is co-chaired by COO Eric Foss and SVP of HR

John Berisford. Its primary business is to set diversity strategy, including a three-year strategic plan and annual initiatives toward its goals. Board members also participate in PBG's affinity networks and groups, which gives them the opportunity to test the waters and get feedback from employees. IT VP Michele Leslie, for example, participates in Women at PBG. Ops VP Tony Ware is a member of the Black Employees Association.

The PBG networks partner with many of PepsiCo's affinity groups. "The networks are primarily focused on development of their members," says McKenney. They also help identify employees for sponsorship to attend professional conferences. All new employees participate in a diversity "foundation training" course. The current 38,000 North American employees will participate in another course called "diversity matters" in 2006.

New managers get further training. The "making diversity matter" course shows them how to leverage differences on their teams. "Selecting the best" stresses managing for excellence. PBG recruits experienced middle management engineers for supply chain, quality, warehouse ops, engineering and production management. Across the company, it also brings in 100 to 150 campus hires annually, up to a third of them engineers for operations positions. In the campus class of 2004, 32 per cent were minorities and 55 per cent women.

Annual planning reviews help employees develop their careers. A separate diversity review for middle management focuses on accelerating the development of diverse talent. Mentoring programs are another critical component, McKenney says. "Nobody is too busy to mentor." In a program called "focus on five," execs each mentor up to five high-potential, often diverse employees for a year. As they rise in the company, promising management folks may be selected to attend the leadership academy, where senior execs participate as mentors. PBG likes its people to get involved with the communities where it sells its products, which means, of course, everywhere. The Pepsi Bottling Group Foundation's "We are involved neighbours" (WIN) program connects employees with community needs.

The foundation's new "rising stars" program awards scholarships to high-

**Notes**

potential high school kids who need help to attend college. PBG works with community groups in Atlanta, Baltimore, Boston and Phoenix to identify recipients. The company offers its employees flexible

benefits, including a full slate for domestic partners. Compressed workweeks, flexible scheduling and part-time work can be arranged, depending on specific needs.

Source: [http://www.diversitycareers.com/articles/pro/05-decjan/dia\\_pbg.htm](http://www.diversitycareers.com/articles/pro/05-decjan/dia_pbg.htm) (Accessed on 12/11/2007).

**EXHIBIT 1.5: BEHAVIOUR THAT WILL LIKELY CAUSE OFFENSE IN SAUDI ARABIA**

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Bringing up business subjects until you get to know your host, or you will be considered rude.</li> <li>• Commenting on a man's wife or female children over 12 years of age.</li> <li>• Raising colloquial questions that may be common in your country but possibly misunderstood in Saudi Arabia as an invasion of privacy.</li> <li>• Using disparaging or swear words and off-colour or obscene attempts at humour</li> <li>• Engaging in conversations about religion, politics, or Israel.</li> </ul> | <ul style="list-style-type: none"> <li>• Bringing gifts of alcohol or using alcohol, which is prohibited in Saudi Arabia.</li> <li>• Requesting favours from those in authority or esteem, for it is considered impolite for Arabs to say no.</li> <li>• Shaking hands too firmly or pumping-gentle or limp handshakes are preferred.</li> <li>• Pointing your finger at some or showing the soles of your feet when seated.</li> </ul> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Source: P.R. Harris and R.T. Moran, *Managing Cultural Differences*, 5th ed. (Houston: Gulf Publishing, 2000).  
Quoted in Helen Deresky, *op.cit.* p.114.

**EXHIBIT 1.6: THE RELATIONSHIP BETWEEN CULTURE AND MANAGERIAL BEHAVIOURS IN SAUDI ARABIA**

Cultural Values	Work group loyalty
Tribal and family loyalty	Paternal sociability
	Stable employment and a sense of belonging
	A pleasant workplace
	Careful selection of employees Nepotism
Arabic language	Business as an intellectual activity
	Access to employees and peers
	Management by walking around
	Conversation as recreation
Close and warm friendships	A person rather than task and money orientation
Islam	Theory Y management
	Avoidance of judgement
	Sensitivity of Islamic virtues
Majlis	Observance of the Quran and Sharia
	Work as personal or spiritual growth
	Consultative management
	A full and fair hearing
Honour and shame	Adherence to norms
	Clear guidelines and conflict avoidance
	Positive reinforcement

**Notes**

An idealized self	Training and defined job duties Private correction of mistakes Avoidance of competition Centralized decision making
Polychronic use of time	Assumption of responsibility appropriate position Empathy and respect for the self-image of others
Independence	Right-and left-brain facility A bias for action
Male domination	Patience and flexibility Sensitivity to control Interest in the individual Separation of sexes Open work life; closed family

*Source:* R.R. Harris and R. T. Moran. *Managing Cultural Differences* 4th ed. (Houston: Gulf Publishing, 1996),  
Quoted in Helen Deresky, *op.cit.* p.115.

**EXHIBIT 1.7: A SUMMARY OF WESTERN AND CHINESE CULTURAL DIFFERENCES AND THE IMPLICATIONS FOR MANAGEMENT**

<b>Comparing pertinent features of the West with that of China, we can make the following distinctions:</b>	
<b>The West</b>	<b>China</b>
Individual rights	Individual duty and collective obligations
Rule by law	Rule by personality and imperial authority
The collective right to grant, question, and reject political authority	Unquestioning submission to hereditary authority backed by force
Political and ethnic pluralism	Monolithic power and homogeneity
Cultural interaction	Cultural isolation
Sufficient resources to support early urbanization, specialization of labour, and large scale trade	An agrarian, subsistence economy and endless hardship, both natural and imposed
An external orientation	AN internal orientation
Physical and social mobility	Permanence in situ
Reliance on reason and the scientific method	Reliance on precedent, intuition, and wisdom
An aggressive, active approach to nature, technology, and progress	Passive, fatalistic submission
Resulting differences in Chinese value, attitudes, and behavior with managerial implications:	
1. Larger power distance—a greater willingness to accept the authority of others	
2. Collectivism	
a. Deriving satisfaction less from task competence and achievement and more from a sense of contribution to a group effort	
b. More value place on the comfort and availability of mutual support and affiliation with a group than on independence, self-reliance, privacy and personal space	
c. More cooperativeness and less competitiveness as individuals	
d. Harmony and humility rather than aggressiveness	
e. High-content communication rather than directness and forthrightness	
f. Recognition of group, rather than individual, performance	
g. More relativistic, particularistic ethnical standards	
3. An external locus of control	
4. More reliance on accumulated wisdom that on reason and objectivity	
5. Holistic thinking and synthesis rather than linear thinking and analysis	

*Source:* J. Scarborough, "Comparing Chinese and Western Cultural Roots", *Business Horizons* (November-December): pp. 15-24.

**BOX 1.2: 'INDIA IS THE MOST FASCINATING PLACE IN THE WORLD TO WORK IN****Notes**

The Abdul Latif Jameel Poverty Action Lab is based in the economics department of the Massachusetts Institute of Technology. It was started in June 2003 by Professors Abhijit Banerjee, Esther Duflo and Sendhil Mullainathan, and is supported through an endowment from MIT alumnus Mohammed Abdul Latif Jameel, after whose father it is named. J-PAL has a network of 19 academics at different universities who work closely with local partners in 13 countries. J-Pal chose to open its first field office in India in Chennai six months ago as the headquarters of its South Asian operations. The Institute for Financial Management and Research, a leading business school, has partnered with J-PAL to host this field office in Chennai.

Lindy Miller, head of J-Pal's South Asia operations, did her masters in public administration and international development from Harvard University. In an interview with Contributing Editor Shobha Warriar in Chennai, she spoke about their future plans.

Why did you decide to have Chennai as the centre for your South Asia operations? J-Pal has been growing from 2003 – when it was established – at a fast pace and it was decided that instead of continuing to manage everything from the Cambridge, MIT Lab, we will establish regional offices around the world. In deciding where we should pilot that regional office, we found that a lot of our work is going on in South Asia. About where we should locate, we looked at our partners in the region, and then we decided to partner with the Institute for Financial Management and Research. That decision was taken because J-Pal and IFMR have been working closely on a number of research projects, and they extended an invitation to host us in Chennai.

IFMR is a financial management research business school. In what way can a business school help you in poverty alleviation programmes? Yes, IFMR is a business school. In addition to its business school training, it is doing a lot of research and training on various sides of India's development. IFMR has many centres like the Centre for Finance, Centre of Micro Finance Strategy, Centre for Small Enterprise Finance, etc; each doing research on different aspects of development. So, it is natural that we

partner with such an institute. We felt we could collaborate with their think-tank.

In what way can a lab like J-Pal alleviate poverty? In fact, J-Pal acts only as a focal point for research for poverty alleviation programmes. So we, per se, do not work on implementing programmes that will alleviate poverty. We use scientific evidence using randomised evaluation which is our methodology. We partner with a local partner and evaluate the programme they are doing to bring to the table scientific evidence and then inform the policy-makers what works. We work with many sectors of society. In fact, what we bring to the development table is the rigour that needs to be present in order to understand what works.

Can you tell us the kind of research you do for South Asia? Basically J-Pal does three things and they all contribute to introducing more science-based evidence into the development process. First thing, we conduct and promote the use of randomised evaluation. Second, we build capacity for people to do randomised evaluation by offering training. Third, we inform policy-makers through dissemination outreach.

**What is randomised evaluation?** I will give you an example. We always work with local partners and currently we have a programme going on with Seva Mandir, an NGO based in Udaipur. Seva Mandir and J-Pal partnered to conduct a baseline health survey. We went to 134 villages, randomly selected people and asked them many questions about their health. All the answers were put in as baseline data, a point from where we can compare in future. Once you have baseline information, we can devise intervention programmes to improve health. We can also use the baseline information elsewhere in the world.

**You gave the example of healthcare.** Other than healthcare, what are the areas J-Pal is interested in alleviating poverty? J-Pal does not choose any area. In fact, we are interested in any area our partners are interested in. We work currently in healthcare, education, micro finance, governance, political mobilisation, women's empowerment, girls' empowerment, etc. In terms of our partners in India, we have over a dozen partners and more than 20 ongoing projects.

## Notes

### How do you choose your partners?

We don't have any allocation process for people who come to us. Usually our researchers and academicians who partner with NGOs conduct evaluations. It's basically networking, very much like in business. For example, we have a funder and he introduces us to an organisation that is doing interesting work, or IFMR brings in a partner, like that. It's a very network-based organisation. It's like bringing science and local expertise together. We are an institute that is a network.

What is the contribution of J-Pal in such collaborations? Funding? The contribution of J-Pal is to provide the scientific rigour and capability of networking people. We bring in the expertise of what works; we have many academicians at MIT, Harvard etc who work with us. We are committed to do evaluation of our programmes.

**Image :** Office blocks and residential buildings tower above the notorious slum colony of Dharavi in Mumbai, 17 June 2007. The plans to redevelop Dharavi – Asia's largest slum, for which global tenders were put out has met with strong protests from the residents mainly tannery owners and Kumbhars (potters) who were the earliest settlers.

**If you find some of your projects not quite effective, will you discontinue it or do more research on it?** Yes, we are absolutely scientifically honest about our projects. If a project is not working, we will discontinue it. The hardest thing for any organisation is evaluating a project because you get emotionally attached to a project. We believe that if you want to use your money effectively and if you are not getting the results you want, you should look at how

to make it work, or look for new programmes to achieve what you are looking for.

**You work all around the world.** Which part of the world is the toughest to work in as far as poverty alleviation programmes are concerned? It is tough everywhere. But it is essential to have good local partners to have effective intervention. Every project has its challenges. As I head the South Asian operations, I will talk about that. Currently among the countries we are working in, it is the most in India, that is why we decided to locate ourselves here. We have a couple of projects in Bangladesh. We are working in Pakistan but we are yet to work in Nepal. But we have trained people from all across South Asia.

### Can we say you are here in South Asia only because you have partners here?

We are here in South Asia because we believe that South Asia is at a very interesting point in history. There is so much growth and so many opportunities in this part of the world. India in particular has been extremely receptive to this type of research and it has been doing this type of research for many years. So, it is a natural place for us to be in as a formalised institution. Again, we are working with countries all over the world since 2003. We also feel J-Pal has a role in bringing the have-nots into the world of haves. What we learn here can be applied anywhere in the world as the whole world is separated by haves and have-nots. At the launch, Narayana Murthy also talked a lot about India's potential and also its limitations.

### Personally, what excites you?

Personally I am very excited about working here as India is critical of itself. For me, India is the most fascinating place in the entire world to work in.

Source: <http://specials.rediff.com/money/2007/sep/13s11.htm> (Accessed on 08/10/2007).

## (ii) Broader Relations and Complexities

Organizations seek the information on broader aspects of employees, and their family members while recruiting and selecting employees from foreign countries. These aspects include: age, health, educational qualifications, driving skills criminal record of employee and his/her family members. Organizations arrange for work permit for employee, visas and resident permits or different kinds of visas for employee and family members, air tickets and all other logistics etc. In addition, organization arrange for socialization of employee and family members with the local community, facilities in the country/city like health, shopping, hotels, housing, entertainment, educational and religious places/places of workshop etc. In addition, other employees both nationals and foreigners do also arrange socialization activities at the personal and family levels. These activities invariably build the relationships on broader aspects among the expatriates and their family members and national employees and their family members.



**BOX 1.3: S KOREA URGES RELEASE OF HOSTAGES****Notes**

South Korea is stepping up efforts to secure the release of 22 of its people taken hostage in Afghanistan.

The government condemned the Taliban for the death of one of the hostages on Wednesday, while sending an envoy to negotiate for the others' release. A Taliban deadline for a prisoner swap passed without incident. The remaining hostages are thought to be alive. Meanwhile a Taliban leader said he was encouraging the kidnap of foreigners to trade for Taliban prisoners. Military commander Mansour Dadullah told UK Channel 4 TV he was in close contact with al-Qaeda.

**Travel bans**

Mr Dadullah himself was freed with four other Taliban members in exchange for a kidnapped Italian journalist earlier this year. "Of course, kidnapping is a very successful policy and I order all my mujahideen to kidnap foreigners of any nationality wherever they find them and then we should do the same kind of deal," he said. Afghan police banned foreigners from travelling outside Kabul without their permission, Associated Press news agency said. And South Korea is banning any more of its citizens from travelling to Afghanistan. A spate of kidnappings has made travel outside big cities a major risk in recent months. Clashes between Taliban militants and foreign troops have increased and the number of roadside bombings and suicide attacks has risen.

**'Inhumane act'**

The 23 South Koreans were abducted in Ghazni, south-west of Kabul, one week ago. The hostages – most of them women – are members of a Christian aid group. The body of one of the hostages was found with multiple bullet wounds in Ghazni province – where the Koreans are being held. South Korea's foreign ministry identified the man as Bae Hyung-Kyu, 42, a church pastor and leader of the group. A statement from the office of South Korean President Roh Moo-hyun condemned the killing as an "inhumane act".

"Murder of an innocent civilian can never be justified. "In consideration of such a grave situation, the government decided to despatch a special envoy to Afghanistan for closer consultations with the Afghan government," the statement said. "We once again strongly urge them to promptly return home the Korean citizens taken hostage." Baek Jong-chun, the president's chief security adviser, is to fly to Afghanistan on Thursday to work with the Afghan government to secure the hostages' release.

*Source:* [http://money.cnn.com/2007/07/25/news/newsmakers/kla\\_sec/index.htm?postversion=2007072516](http://money.cnn.com/2007/07/25/news/newsmakers/kla_sec/index.htm?postversion=2007072516).

Further, employees pay additional attention to understand each other's culture, habits, behaviour, language, ascent, way of presentation, meanings for their body language/non-verbal communication, eating and drinking habits, interpretations for ethnical issues, social issues and practices and the like. This process and emphasis invariably result in understanding each other on wider and broader issues.

In fact, this process involves complexity of activities, relationships, and complexity in understanding each other, reacting appropriately to other's needs, offers and proposals. It does mean that international HRM results in more complexity in understanding people, managing them, meeting their wider needs and providing all kinds of security, in addition to building and developing wider relations. In addition, international employees need to be provided security facilities in case of wars, riots, hostage and other such situations. (See Box 1.3).

Domestic HRM creates only a few relationships as the relationship among the people of the same nation or community have already been built and developed. Understanding and managing the people of the same nation is relatively less complex than that of expatriates.

**Notes**

Thus IHRM is different from domestic HRM in case of relationships among employees and employees and the organization. Now, we shall discuss the next issue, i.e., influence of international environment.

**(iii) Influence of International Environment**

International environment has become complex, highly competitive, dynamic, vibrant, intertwined and interdependent. The emergence of World Trade Organization, increased phase of globalization of all facets of business, widening scope of regional integrations and strides in information technology transformed the domestic environment of most of the countries into international environment. In other words, the gulf between domestic environment and international environment is narrowing down. Increased economic integration creates new challenges to IHRM as happened in European Union, when it expanded and its membership increased to 27 in 2007. It caused free flow of human resources among the 27 countries and therefore workers from the less developed countries of European Union migrate to developed countries of the union which resulted in decline in wage rate and increased unemployment in developed countries of the union like Germany and Italy.

**Strides in Business Processes:** Economic uniformity in terms of institutions, their activities, methods of operation and transactions is being in force along with those in other countries. The explosive growth of information technology is both the cause and effect for economic uniformity across the world. E-business has changed the business processes and patterns from the stage of procuring raw materials to the stage of selling, outsourcing, call centers, post-sales services etc. This change one way increased the demand for international human resources and started reducing the physical flow of human resources across the countries. In other words, human resources can stay in their home country and work for a company located in foreign country via internet and other modes of information technology. This process does not reduce the role of IHRM. In contrast, it enhances the role of IHRM and yet complicates the IHRM process as employees need to be managed by a blend of HRM practices prevailing in both the countries.

**Influence of Information Technology:** In addition, information technology allows location of manufacturing centres in various countries with the help of computer aided manufacturing (CAM) techniques, thus, creating employment opportunities in various countries. This shift necessitates internationalization of HRM activities in the manufacturing centres in various countries. Further, the concept of outsourcing by MNCs in various countries like India, China, Vietnam and Malaysia also enlarged the employment operations in domestic companies in these countries. Though the domestic countries employ and manage their home human resources, quite often the respective MNC evaluates and controls the skills of employees, training, salary level and benefits in the outsourced company. For example, the outsourcing companies of Nike in Vietnam were paying wages at par with other domestic companies, which were quite low compared to the international standards. Then Nike in the year 2000 interfered in the wage rates and contributed for the wage hike in these companies.

The shifts in manufacturing technology necessitate the higher order skills of the employees. MNCs and competitive domestic companies in domestic countries like Bank South Pacific in Papua New Guinea attracted human resources with necessary skills from various countries, due to the absence of such skills in the host country in case of MNCs and domestic countries in case of domestic companies.

**Political Liberalizations:** The shifts in political ideologies of various countries along with globalization are note worthy. Political rules and regulations of various governments are significantly liberalized. There used to be clear demarcations between capitalism and communism before 1990s. Most of the erstwhile while communist

countries have been turned into capitalist economies/market economies providing the red carpet treatment to the MNCs into their economies. Along with the liberalizations for entry of MNCs, these countries also liberalized the visa and work permit regulations to man the jobs in the MNCs with adequately skilled people from abroad, when qualified people are not available within the country (See Exhibit 1.8). This is not just the case with all MNCs as domestic companies are also allowed to employ foreigners as employment of foreign human resources some times is less costly. Sometimes, foreign human resources with similar skills are less costly than the domestic human resources. For example, certain categories of Indian human resources are cheap in the USA and *vice versa* are also true in case of certain other categories in India.. Similarly, certain categories of human resources of are cheaper in Germany and Italy.

**Differences in Influences:** In fact, social and cultural factors vary widely from country to country as discussed under the caption, 'wider nationalities'. The variations in social and cultural factors along with other international factors necessitate use of different methods of practices for IHRM. International environmental factors like economic, political and technological enlarge the scope for IHRM and also emphasizes on different practices for IHRM. Government regulations demand for and supply of international human resources and social and cultural factors aptly emphasizes on use of different practices and techniques to manage international human resources. The domestic HRM practices are mostly influenced by the domestic economic, political, technical and social factors while IHRM is influenced by environmental factors of host country/domestic country as well as various foreign countries, thus, delineating the distinction between IHRM and domestic HRM.

Now, we shall discuss the next factor that further elaborates the difference between IHRM and domestic HRM, i.e., enduring complexities in HRM activities.

#### (iv) Enduring Complexities of IHRM Activities

IHRM deals with the expatriates and nationals. Expatriates in case of MNCs comprise of home country nationals, host country nationals and third country nationals. Expatriates in case of a purely domestic company include foreigners. Thus, IHRM deals with expatriates and nationals whereas domestic HRM deals with exclusively nationals.

A number of critical complexities arise when an organization employs both expatriates and nationals. These complexities are to some extent due to the practice of different HRM policies and practices for nationals and expatriates.

MNCs as well as domestic organizations employing international employees are invariably follow different HRM practices for nationals and expatriates. For example, these organization offer higher salaries and benefits for foreigners compared to nationals. Thus, sometimes nationals and foreigners with the same designation or job title receive different salaries and benefits. The motivational techniques, leader-follower interactive techniques, would also differ between national employees and foreign employees. These varying practices in case of salary, benefits, and motivational techniques result in a feeling of frustration and discrimination among national staff. Further, these practices demotivate the national staff, which complicates the task of satisfying human resources of all categories.

**Discriminative Remuneration and Employee Frustration:** In addition, some MNCs provide discriminative salaries based on the country of origin of the expatriates and discriminative salaries between home country nationals and one third country nationals and other third country nationals. Thus, significant variations in salaries, benefits, motivation, retaining strategies, treatment, interpersonal relations and approach towards employees vary based on the country of origin of employees create

## Notes

## EXHIBIT 1.8: COMPARATIVE COUNTRY RISK RANKINGS

<b>Country</b>	<b>Overall Rating</b>	<b>Political Risk</b>	<b>GDP Growth</b>	<b>Per Capita Income</b>	<b>Trade Flow With U.S</b>
Italy	4.13		3	5	4
Denmark	4.25	5	3	5	2
Netherlands	4.63	5	3	5	4
Japan	4.19	5	3	5	5
Australia	4.5	5	4	5	4
Ireland	4.38	5	3	5	3
Germany	4.5	5	3	5	5
Sweden	4	5	3	5	3
France	4.38	5	3	5	5
Switzerland	4.5	5	3	5	4
Singapore	4.88	5	5	5	5
Belgium	4.38	5	3	5	4
United Kingdom	4.63	5	3	5	5
Canada	4.38	5	3	4	5
Israel	4	4	4	4	4
Malaysia	3.75	4	4	--	4
Chile	2.88	4	3	--	2
Thailand	3.5	4	4	--	4
South Korea	3.63	4	4	3	5
Spain	3.5	4	3	4	3
Hong Kong	4.5	4	4	5	4
Saudi Arabia	3.38	4	3	2	4
Taiwan	4.13	4	4	4	5
Turkey	2.13	3	--	--	2
South Africa	2.75	3	3	--	2
Argentina	3.25	3	4	3	3
Poland	2.75	3	4	--	2
Indonesia	2.63	3	4	--	3
Philippines	3	3	4	--	4
Costa Rica	2.38	3	3	--	2
Czech Republic	2.75	3	3	--	--
Colombia	3.25	3	4	3	3
India	2.75	3	3	--	3
China	2.88	3	4	--	5
Mexico	3.38	3	3	2	5
Brazil	3	3	4	--	4
Egypt	2.38	2	3	--	2
Venezuela	2.38	2	2	--	4
Peru	2.56	2	4.5	--	2
Russia	2	--	--	2	2

EXHIBIT 1.8 (CONT.)

Notes

Country	Monetary Policy	Trade Policy	Protection of Property Rights	Foreign Investment Climate
Germany	4	4	4	4
Sweden	5	4	5	5
France	5	5	5	5
Switzerland	5	4	4	2.5
Singapore	5	4	5	4
Belgium	5	4	5	5
United Kingdom	5	4	5	4
Canada	4	4	4	4
Israel	5	4	5	3
Malaysia	5	4	5	5
Chile	5	5	4	5
Thailand	5	4	5	4
South Korea	5	4	5	5
Spain	5	4	5	4
Hong Kong	3	4	4	5
Saudi Arabia	5	4	4	4
Taiwan	3	3	3	4
Turkey	5	3	3	4
South Africa	5	3	3	2
Argentina	3	4	3	4
Poland	4	5	5	5
Indonesia	5	3	3	3
Philippines	5	4	4	3
Costa Rica	--	3	2	4
Czech Republic	4	3	3	3
Colombia	4	3	3	3
India	2	3	3	4
China	3	2	3	2
Mexico	4	2	4	4
Brazil	2	2	3	3
Egypt	3	4	3	4
Venezuela	4	3	3	3
Peru	4	2	3	3
Russia	3	2	2	3
	4	3	3	4
	3	3	3	3
	4	2	2	3
	2	2	3	3
	2.5	2.5	3	3
	--	3	3	3

Ranking Scale: 1-5, with = best, or lowest risk.

Source: Data from T. Morrison, W. Conway; and J. Douress, Dun & Bradstreet's "Guide to Doing Business Around the World" (Englewood Cliffs, N.J: Prentice-Hall, 1997). Quoted in Helen Deresky, *op.cit.*, pp.16-17.

complexities in IHRM. In addition, salaries and benefits also vary based on performance within each category which would give a room for suspicion among employees. Every action of HR manager as well as line managers is viewed by employees from the discriminatory lenses with an eye focused on country of origin.

In fact, organizations prefer to recruit the employees from a particular country for specific jobs based on the aspiration, expectation and scarification levels of the candidates at the initial stage. However, the pre-employment expectation would be over shadowed by the new expectations based on the employee perception of the

**Notes**

organizational discriminative IHRM practices. This, in turn results in employee frustration creating new challenges to human resource and line managers.

**Counseling to Reduce Frustration:** The reason for employee frustration as well as employee perception towards discriminatory salaries, according to employers need not always be true as employees with the same designation would produce different quantities as well as qualities of output. But, international human resource managers are forced to conduct counseling and consultation programmes in order to make the employees realize the philosophy, reasoning and need for paying discriminatory salaries and benefits. For example, the HR manager of CPL Limited in Port Moresby, Papua New Guinea arranges an informal get together party at an Island Resorts once in a year exclusive for Filipino employees who have been paid relatively less salary over their counterparts from Australia, New Zealand and India, listen to their complaints with regard salary, benefits and facilities at the work place and clarifies them the policy of the company as well as the contributions made by the employees from Australia, New Zealand and India, and their critical and strategic role in the organization.(See Box 1.4). MNCs counsel HCNs to reduce frustration.

The perception and attitude of those employees who perceived to be receiving lower salaries and benefits, sometimes hurt the feelings of other employees, who strongly believe that they are worthy of receiving higher salaries due to their skills and expertise rather than due to their country of origin or otherwise. IHR managers have to take steps to convince the employees of different countries that salary differentials exist for attracting people with different skills. Thus, a variety of conflicting feelings, attitudes and perceptions of different nationalities towards each other complicates the task of IHRM. Domestic HRM is almost free from all these complexities of conflicting attitudes and perceptions as there is no such scope in domestic HRM. Thus IHRM is different from domestic HRM.

Now, we shall discuss the next factor that contributes for the differences between IHRM and domestic HRM, i.e., variety of function.

**(V) Variety of Functions**

International human resource managers perform certain additional functions compared to domestic human resource managers, as indicated earlier while defining the term 'international human resource management'. These functions include:

- **Additional Information:** Procuring additional information about the culture, family members, and current employment details of the prospective employees at the recruitment stage itself.
- **Additional Techniques of Recruitment:** Using additional techniques of recruitment to attract and inspire the prospective employees to apply like describing the culture of the country, exchange value of the currency, exchange stability, percentage of repatriation of earnings to home country, medical facilities, educational facilities to children, entertainment facilities, physical security etc.
- **Checking the Record of Terrorist and Criminal Activities:** Checking the record of terrorist and criminal activities of the short listed candidates with the help of the foreign governments of those countries where the short listed candidates either born or lived for substantial period. This activity gained prominence after terrorist attracts in USA, UK and other Western countries.
- **On-Line Selection:** Arranging for on-line selection techniques and process.

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- Providing detailed information about the economy, financial institutions/ banking facilities income tax rates, social conditions, health conditions at the place of employment in particular and in the country in general to the selected candidates along with offer of employment.
- Providing additional information specific to the candidate on request.
- **Immigration Information:** Providing information to the candidates for applying for work permit and other immigration formalities. This includes undergoing medical tests including HIV/AIDS Tests and submitting the reports for obtaining visa and work permit. However, some of the medical tests required by the visa/work permit regulations of the host country are controversial for the employee as it involves the question of his/her personal life as well as privacy.
- **Fulfilling Immigration Formalities:** Fulfilling the formalities with the Immigration Department of the country where the company is located for grant of permission to issue visa and work permits. Sometimes, the companies have to convince the Immigration officer for employing foreigners based on the reasoning that such skills are not domestically available. (See Box 1.5).
- Providing information to the offices of Embassy/High Commissioner of the country located in the candidate's country of residence for grant of visa.
- The organizations are some of the African countries provide the information about and rules of immunization.
- **Air Tickets:** Arrange for the air tickets, if necessary by being in liaison with the selected candidates.
- **Arranging for Receiving the Candidates:** Arranging for receiving the candidates and their families on arrival, and facilities for immediate stay and housing
- **Introduction:** Introducing the employees and their family members to the facilities available in the organization as well as in the city like shopping, medical, educational, recreation, entertainment, social and religious.
- **Conducting Language Classes:** Organizations in some countries, particularly, non-English speaking countries conduct language classes for employees and their family members.
- Employees and their family members specially introduced to the security issues and distinctive culture issues in the city and in the country.
- **Designing Attractive Pay Package within the Tax Laws of the Country:** Organizations have to follow the taxation rules of the host government with regard to individual income tax for expatriates also unless otherwise special mentions are made. Salary levels of organizations may not be attractive for the foreign employees due to high tax rates in some countries, at the same time they are costly for the organizations. Therefore, the organizations design the salary and benefits structure within the tax laws in order to make it attractive to the foreign employees and relatively less cost to the organizations.
- **Full Details of Pay Package:** Organizations provide the details of salary, viz., basic salary, allowances, international relocation pay, gratuity, tax and other deductions including housing, payment of children school fee, gratuity,

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## BOX 1.5: IT MAJORS NOW FACE L VISA CHARGES

Two US Senators – Grassley and Durbin – who have been raising questions about H-1B visa abuse by offshore outsourcing vendors have now alleged that the offshoring firms are also using the L visas to circumvent the system. Leading Indian and global information technology firms such as Tata Consultancy Services (TCS), Cognizant Technology Solutions, IBM, Satyam Computer Services and Wipro top the list of L visa users for the financial year 2006-07. TCS received 4,887 of the L visas in 2006-07. The company, which was also awarded 3,046 H-1B visas last year, was given 5,517 L visas in 2005-06, Durbin and Grassley said. The two Senators said Teaneck, New Jersey-based Cognizant Technology Solutions, which has offshore facilities in India, received 2,226 H-1B visas and 3,520 L visas in FY06. The latter figure was up from 1,888 visas the year before. The debate has cropped up even as a revamped immigration reform Bill is to be presented on the Senate floor this week. The L visas, which include the L-1 and other lesser-known documents, can be used by multinational companies to transfer employees from overseas locations to offices in the US.

They don't have some of the restrictions that H-1B visas do, such as the

requirement that workers be paid prevailing wages on par with the salaries of American workers. Moreover, while H-1B visas are capped at 65,000 a year, there is no annual limit to the number of L visas. The number of such visas issued has increased from 39,886 in 2001 to 53,144 in 2006.

"I would like to know how many American workers these companies hire compared with the number of foreign workers they bring in," said Grassley in a press statement. "I find it hard to believe that any one company has that many individuals that are legitimately being transferred within a single year. I find it even harder to believe that these L visas are being used appropriately when many of the same companies are some of the largest employers of H-1B workers. It's clear that the foreign outsourcing firms are abusing the system and we can't let that continue," added Durbin. Grassley and Durbin said they would continue to investigate the blanket L petition that allows companies to bring in a limitless amount of workers. Earlier this month, the duo had sent letters to the top-nine foreign-owned companies, including IT biggies such as TCS, Infosys, Wipro and Satyam, to determine the companies' usage of H-1B visas.

Source: <http://www.rediff.com/money/2007/jun/28visa.htm> (Accessed on 28/6/2007).

payment period like weekly, fortnightly or monthly, delivery mode like cash or through bank, currency mode like fully/partly host country's currency, and employee's home country currency, or in hard and convertible currencies, repatriation percentage to total earnings and mode. Employees are anxious to know full details of the salary, savings, tax, benefits, and repatriation back to the home country as the salary is one of the major considerations in accepting/rejecting international employment offers. Therefore, organizations normally provide these details in order to prevent possible issues for employee grievance, disputes and break-up of contracts after involving heavy expenditure in recruitment and training.

- **Special Training:** Organizations provide special training to the expatriates in language, work culture apart from job related activities that are common to nationals also.
- **Close Relations with the Immigration Officials:** HR of MNCs or domestic companies employing foreign nationals develop close and personal relationships within the officials of the Immigration departments of the host country in order to obtain visa permissions and work permits without any hiccups caused due to bureaucratic rules and procedures. Some companies which feel maintaining close relations with immigration officials through gifts and dinner is contrary to the company's values, engage the services of the consultants.



- **Translation Facilities:** HR departments of some MNCs which employ the people from a number of countries particularly for short duration provide translation facilities to foreign employees.

Now we shall discuss the next issue, i.e., different approaches to the domestic functions.

#### (vi) Different Approaches to Domestic HRM Functions

HR managers in purely domestic companies perform various HRM functions. viz.,

- Recruitment, Selection, Induction and Placement.
- Training and Development.
- Salary Administration and Benefits.
- Retention Management and Maintenance.

**Multiple Approaches:** In fact, international HR managers perform the above functions from the different approaches and magnitude compared to the pure domestic HR manager. The different approaches include performing the same function from the point of host country nationals, home country nationals and third country nationals.

**Remuneration Function:** Exchange rate neutralization, international market allowance and tax adjustments need not be incorporated in salary function for the nationals, but these functions need to perform in case of expatriates. In fact, all of these functions need not be performed for all expatriates as employment terms and conditions incorporated in the contract vary from one country nationals to other country nationals.

Home country nationals may be relocated on 'deputation' basis while third country nationals have to be some times selected and placed in the host country. Even the motivational and retention management techniques vary from one country nationals to other country nationals. The laws of employment, compensation management and industrial relations may have different provisions for different nationals.

Thus the international HR manager has to follow different approaches for different nationals unlike the domestic HR manager, who normally follow single approach as the employees belong to one nation.

#### Conclusion

It is rather difficult to define the term IHRM due to the complexities involved and varieties in operations and functions. In fact the terms used to denote the foreign employees are also confusing as different institutions/MNCs/TNCs use a variety of terms. IHRM is defined as, performing HRM and its related activities and arranging for related and necessary immigration facilities for prospective and current expatriate employees, by organizations operating in domestic and/or foreign countries. IHRM is different from domestic HRM.

International HRM differs from domestic HRM in six major dimensions, viz., (i) wider nationalities of employees, (ii) variety of functions to be performed, (iii) influence of international environment, (iv) broader and deeper relationships, (v) different approaches for the domestic functions and (vi) enduring complexity of domestic HRM activities.

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**1.4 ISSUES IN IHRM**

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Broadly defined IHRM is the process of procuring, allocating, and effectively utilizing human resources in a multinational corporation. If the MNC is simply exporting its products, with only a few small offices in foreign locations, then the task of the international HR manager is relatively simple. However, in global firms human resource managers must achieve two somewhat conflicting strategic objectives. First, they must integrate human resource policies and practices across a number of subsidiaries in different countries so that overall corporate objectives can be achieved. At the same time, the approach to HRM must be sufficiently flexible to allow for significant differences in the type of HR policies and practices that are most effective in different business and cultural settings. Specifically compared with domestic HRM, IHRM is more important as it (1) encompasses more functions, (2) has more heterogeneous functions, (3) involves constantly changing perspectives, (4) requires more involvement in employees' personal lives, (5) is influenced by more external sources (6) involves a greater level of risk than typical domestic HRM.

When compared with domestic human resource management, IHRM requires a much broader perspective on even the most common HR activities because manpower moves across the political borders and work globally. Generally, global employees are known as expatriate employees. There are various complexities of operating in different countries and employing different national categories of employees. And such complexities can differentiate domestic HRM from IHRM. Dowling argues that the complexity of IHRM can be attributed to many of factors such as more HR attitude, the need for broader perspective, more involvement of employee's personal lives, mixing of work force of various countries, risk exposure and broader external factor influences.

To operate in Global environment , HR Department must engage in number of activities that would not be necessary in domestic environ, i.e. , international taxation issues, international relocation and orientation, administrative services of expatriates, host government relations and language translation services etc. Host government relations represent a phenomenal activity for IHRM particularly in third world nations where work permits and other important certificates are easy to acquire with comparison to developed nations.

Training and development issues of IHRM are more complex than domestic HRM. It is difficult to plan a training programme and schedule for the workforce of multinationals. People carry various attitudes and values for training and development issues. In the present era, it is one of the major challenges before IHRM.

A greater degree of involvement in employee's personal lives is also an important concern for IHRM. It needs to ensure that expatriate understand housing arrangements, schooling facilities, health care, cost of living, compensation package, local tax system etc. of the nation where they are going to take up an global assignment. Here the involvement and onus of IHRM becomes much broader than domestic HRM.

As the foreign operations mature, the emphasis put on various human resource activities also gets change. As the need for PCNs and TCNs declines, the more locally trained manpower appear on the scene. And resources previously allocated for global staffing are transferred to the activities of local staffing. Such change also poses challenge before IHRM to maintain balance between mixed workforces in a MNC.

The human and financial consequences of failure in international arena are more severe than domestic activities. The amount of risk involved in global ventures is

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much higher and complex than domestic employment. The direct and indirect cost of maintaining global workforce is very high. And the long presence of global terrorism also leaves impact over global staffing issues. After 11 Sep 2001, many MNCs started allocating 1-2% of their budget for the safety and security of their global workforce. People are indisposed to work in disturbed areas even though many avenues are available.

Some major external factors such as the type of government, the state of economy, political stability, cultural and ethical issues, industrial relation and labour laws, unionism, working culture, food, taxation, health and safety issues, amusement etc. of a nation is also an important concern for IHRM. The workforce in developed nations is facilitated with more laurels and comforts than in developing and third world nations. It also poses challenge before IRHM. Global HR Manager must develop HR systems that are not only acceptable to the host country but also compatible with company-wide systems being developed by his or her HQ-based counterpart. The management of international Human Resources has now assumed strategic importance in the achievement of multinational organizational growth and excellence. As globalization advances and we move into the information age, MNCs need to adapt to the changes in technology and the changing issues in management of people. Some critical issues have clearly emerged – planning, acquisition and development of human resources, responding to the demands of the work place and, above all, evolving a strategy of dealing with industrial conflict. As a management practice, it covers all the conventional areas of personnel management and industrial relations, as well as the relatively new areas such as communication, counseling, training and development, and job enrichment. All the issues are related with management of the people in a multinational context. The issues are to be resolved, unless the whole edifice of international human resource management would be destroyed. The main issues are:

- Managerial issues
- Socio-cultural issues

Today, competitive advantage is based on the successful application of knowledge. Managing people, as an HRM function, has broadened, to include managing organizational capabilities, relationships, learning and knowledge. Economic reforms influence the human resource management processes. Good examples can be cited to hold the discussion on the right way. Impact of economic reforms in China and India can be taken. The more common mode of operations in these two countries is international joint venture. Prior to reforms, Chinese employees were classified into two groups – workers and cadres. Since the reforms, the distinction between cadres and workers has gradually become blurred, particularly in foreign-invested and privately owned enterprises. Established in 1950s' a centralized labour allocation system determined the staffing levels in Chinese enterprise. Accompanying the centralized labour allocation was the belief in lifelong employment. But by the end of 1996, a labour contract system had become compulsory in both public and private sectors, including the managerial level, thus revoking the long standing tradition of lifetime employment. In theory, both workers and managers had the freedom to select each other. Western recruiting methods are now commonly used. As enterprises now have to match production to market demands and be responsible for their own survival, they need to attract and retain competent and motivated employees. Before reforms in China, performance appraisal in China for cadres was mainly for promotion or transfer, with the main criteria being political loyalty and seniority. Thus the appraisal method relied heavily on 'superior rating subordinate', and lacked specific criteria and other performance measures commonly used in western market economies. As part of economic reforms aimed at breaking the *iron rice bowl*, a new scheme was proposed

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based on socialist principle of distribution. New appraisal criteria focused on four broad areas – moral integrity, competency, attitude, performance. Some new methods have also been introduced requiring both qualitative and quantitative measurement. The compensation system before the reforms was characterized by egalitarianism at both enterprise and individual levels regardless of performance. Reform of the compensation system began at the enterprise level. The state regulated wage system has now been replaced by diversified wage packages with more emphasis on enterprise profitability and individual performance. Remarkable changes have also been brought in training and development. At the workers' level, lack of education and training was widespread. The practice of double certificate (educational and vocational) aims to achieve an outcome has now been widely implemented and has enabled the workers to take the training course of their choice and to be more flexible in job selection. In case of India, complex cultural context is more advantageous to local managers. A study by As-Saber, Dowling, and Leisch found that there was a clear performance for using the HCNs in key positions by multinationals operating in India. Once hired, it is not easy to dismiss employees under Indian labour law. The Industrial Disputes Act, 1947 provides strict rules for lay-offs and dismissals. Since the economic liberalization in 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 led to shortage of skilled people. International business operations place specific demands on effective training and development of PCN, TCN, and HCN staff. The International Joint Venture (IJV) complicates this issue due to potential conflicts in managerial styles and expectations.

Socio-cultural issue is another important issue area in IHRM. Ethics, corporate social responsibility (CSR) and women employees are three important of socio-cultural issue. In the domestic context, debates about CSR have focused on whether a firm should adopt non-economic goals. Those who argue for a narrow view of CSR believe that a firm's only responsibility is to maximize profits for shareholders within the law. Proponents of the broader view argue that firms should adopt the role of a 'good citizen' and balance the interests of society. When business is conducted across national and cultural borders, the debate on CSR takes on added layers of complexity. In particular, perplexing questions about the existence of universal ethical standards are raised. This is especially problematic when multinationals operate in host countries with different standards of business practice. The questions of ethical relativity and CSR arise not only in the context of HCN, PCN employment practices but also in the central operations and policies of multinationals. For ethical relativist, there are no universal or international rights or wrongs: it all depends on a particular culture's values and beliefs. So, if the people of Indonesia tolerate the bribery of their public officials, this is morally no better or worse than the people of Scandinavian countries who refuse to accept bribe. For the ethical relativist, when in Rome, one should be like a Roman. Unlike the relativist, the ethical absolutist believes that 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. It must be noted while some behaviours are wrong wherever they are practiced (e.g., bribery of government officials), other behaviours may be tolerated in their cultural context. In contrast to the ethical relativist, the ethical Universalist believes there are fundamental principles of right or wrong, which transcend cultural boundaries, and that multinationals must adhere to these fundamental principles. However, unlike the absolutist, the Universalist is careful to distinguish between practices that are simply culturally different and those that are morally wrong. The difficulty for managers operating in diverse cultural environments is to identify moral norms, which transcend cultural boundaries, and then, without compromising those norms, recognize and respect diversity where it is morally appropriate to do so. Ethical issues are also people issues and thus the issues

raised above have direct implications for the HR function. It is recognized that the HR function is responsible for many of the activities that build a sense of corporate identity.

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The issues that relate to gender are paralleled by those that arise because of race, religion, disability, sexual preference, and other such personal characteristics. In many countries it is illegal to make human resource choices on the basis of these characteristics. In other countries, however these characteristics are especially important and may be the basis for making human resource decisions. Decisions associated with gender, race, religion, and so on often involve ethical considerations, as do many other international decisions. In Saudi Arab, women are not permitted to drive, to travel on an airplane alone. In Japan, women seldom work after marriage. In the US, women have attained a certain degree of equality in the business environment but are seldom found in top management positions. In China, women hold many of the same positions as men but they are required to retire at an earlier age. International managers, whether they are men or women, cannot avoid dealing with the question of the role of women in business. They must often decide whether to employ women, when to employ them, which ones to employ, where to employ them; then they must decide how to manage the women employed. In addition, international managers need to recognize that men and women may view roles differently, and differential treatments can be interpreted in a variety of ways. International managers need to pay particular attention to understanding the role of women in society and business in each country where they do business.

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## 1.5 INTERNATIONAL BUSINESS STRATEGIES

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International business firms can use four basic strategies, viz., international strategy, multidomestic strategy, global strategy and transnational strategy.

**International strategy:** International business firms adapt this strategy in order to transfer the valuable skills and products developed in the home country to the foreign markets where such skills and products are not available. This strategy produces results when (i) the company has core competencies that the foreign competitors do not possess them, (ii) the firm faces weak pressure for local responsiveness and cost reductions. For example, Trukai Rice and steamships (both are Australian companies) transfer the skills and products from Australia to Papua New Guinea.

Mc Donald, Southern Cross University also adapt international strategy.

**Multidomestic strategy:** International business firms adapting this strategy customise products and marketing strategies to the host country requirements and environment. The international business firms establish their production, marketing, finance and R & D facilities in various host countries. For example, Unilever established Hindustan Lever Limited in India. Similar examples include Nestle, Procter and Gamble and Colgate Pamolive.

**Global strategy:** International business firms adapting this strategy concentrate on profit earning through cost minimisation. Therefore, these firms produce standard products, by locating the manufacturing and other facilities in certain locations where the cost of production/operations is the lowest. They select other cost reduction strategies in order to achieve low cost leadership in the industry. The firms like Intel and Texas Instruments adapt this strategy.

**Transnational strategy:** According to Christopher Bartlett and Sumantra Ghoshal, international business firms should pursue low cost leadership-cum-local responsive or customisation strategy due to intensive global competition. Firms can

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achieve this strategy by exploiting experience-based economies and location based economies. Firms should transfer experience-based core competencies and also customise their operations/product to the local requirements. They also emphasise that the transfer of experience based economies and skills should flow not only home firm to foreign subsidiary, but also from foreign subsidiary to home company and from one foreign subsidiary to another foreign subsidiary. They referred this learning process as 'global learning'. This process of simultaneous value creation is called 'transnational strategy'. The firms adapting this strategy simultaneously reduce cost and increase value creation and addition. For example, Caterpillar learned greater cost economies when it faced the severe competition from Komatsu and Hitachi during 1980s.

**Strategic Alliance:** Strategic alliance is an agreement between two or more competitive international business firms in order to serve a global market. Strategy alliance normally take place among the companies carrying-out the similar line of business.

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## 1.6 UNDERSTANDING CULTURE

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Culture is a system of shared meaning and understanding held by the members of the organisation/society that distinguishes from others.

Culture is mostly determined by the economic level and conditions and climate of a region or a country. Since economic level and conditions and climate differ from region to region and country to country, culture also differs from region to region and country to country.

Certain needs of the people like physiological and sociological, viz., food, water, clothing, housing and security are common irrespective of the region or country. Therefore economic and social behaviour of people across the world have some common features though the presentation of the general behaviour may vary. These variations are due to the availability of varied inputs for food, clothing, shelter and social relations together with the variations in climatic conditions.

For example, Scandinavian societies depend on sea food and trade with coastal cities as they are situated along rocky shorelines. People in desert areas of Asia and Africa travel long distances in search of food and water as they can't grow crops due to lack of water and non-suitability of soil to grow crops. People of deserts emphasized on goat milk, dry grains and dehydrated meat. They avoid some foods like pork. This culture is institutionalized and Islamic law prohibits the Muslims from eating pork. Like this, different religions suggest different types of food to be consumed and/or avoided.

Similarly, societies developed pattern of child rearing, husband-wife relations, family bondage, taking care of old people etc. In fact, Government of India has been contemplating to enact a law to impose the financial responsibility over the children to take care of old parents.

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## 1.7 CULTURE: ITS COVERAGE AND DETERMINANTS

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Taylor defined culture as "that complex whole which includes knowledge, belief, art, morals, law, customs and other capabilities and habits acquired by man as a member of society." Pascale defines culture as "acquired knowledge the people use to interpret experience and generate social behaviour. In turn this knowledge is used to form beliefs and values, create attitudes and influence behaviour." In fact, people learn a lot from the environment, viz., social environment, technological environment,

economic environment, political environment, international environment and natural environment. Thus, culture is:

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- learnt from the environment and interaction at workplace and social spheres.
- shared and exchanged between two people or among several people.
- trans-generational, in the sense that it is transferred from one generation to other generation.
- adaptive as individuals adapt the cultures of other persons or societies.
- descriptive as it defines boundaries between groups.

### Cultural Factors

Cultural factors influence the cultural formation and thereby behaviour as presented in Fig. 1.4.

**Knowledge:** People gain knowledge from the influence of environmental factors as well as interaction with the environment. In addition, people gain knowledge from the readings of various books, journals, magazines and news papers and interaction with the people at work as well as social spheres.

**Beliefs:** Belief is a cognitive representation of one's relevant environment may be right or wrong, good or bad and cause and effect relationships.

**Value:** Value is an "enduring belief that a specific mode of conduct or end state of existence is personally or socially preferable to an opposite or converse model of conduct or end-state of existence." Some studies have categorized values in the following hierarchy:

- Level - 1:** **Reactive:** These people react only to basic physiological needs. Therefore, they are not really aware of themselves or others as human beings.
- Level - 2:** **Tribalistic:** These people are strongly influenced by tradition and are dependent upon others.
- Level - 3:** **Egocentrism:** These people are aggressive, selfish and power-responsive.
- Level - 4:** **Conformity:** These people can't tolerate ambiguity and are uncomfortable with people possessing values that are different those of them.
- Level - 5:** **Manipulative:** These people prefer materialistic gains, seek status and manipulate others.
- Level - 6:** **Socio-metric:** These people prefer to go along with others rather than differently from others.
- Level - 7:** **Existential:** These people tolerate ambiguity and also people with different values than those they possess to a greater extent. They prefer flexible policies. They don't emphasise on status symbols and use of power.

**Attitude:** Attitude is defined as, "a learned predisposition to respond in a consistently favourable or unfavourable manner with respect to a given object." Attitudes are evaluative statements – either favourable or unfavourable – concerning objects, people or events. They reflect how one feels about something. Thus, components of attitudes include:

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- **Cognitive:** Cognitive component of an attitude is the opinion or belief segment.
- **Affective:** Affective component of an attitude is the emotional or feeling segment.
- **Behavioural:** Behavioural component of an attitude is an intention to behave in a certain way towards someone or something.

**Behaviour:** Knowledge provides inputs to beliefs, values and attitude. In turn, belief influences values and values influence attitudes. These three factors together form culture and which turn result in behaviour.

People differ in values, belief and attitudes. Therefore, they also differ in culture which in turn results in cultural diversity of people at the work place as well as in social spheres.

**Culture and Behaviour**

Culture is made up of assumptions, values, beliefs and attitudes set by the society based on the changing environment. Individuals set their minds, based on the society's culture in which they are brought up in addition to their own psychological set up mostly shaped by the genetically characteristics, to react to and interact with the environment in certain ways. Thus, culture provides a mental direction and traffic signals to people. Individuals behave based on the mental direction and traffic signals provided by the culture. One should not forget that the cultural output of one's own being is the interactive outcome of environmental influences including society and his/her genetically characteristics. People pursue their goals, behave, and interact with others based on their cultural configuration. Thus, the culture affects the behaviour.

**1.8 CROSS-CULTURAL THEORY**

The term "cross-cultural" emerged in the social sciences in the 1930s, largely as a result of the Cross-cultural Survey. Cross-cultural may refer to -

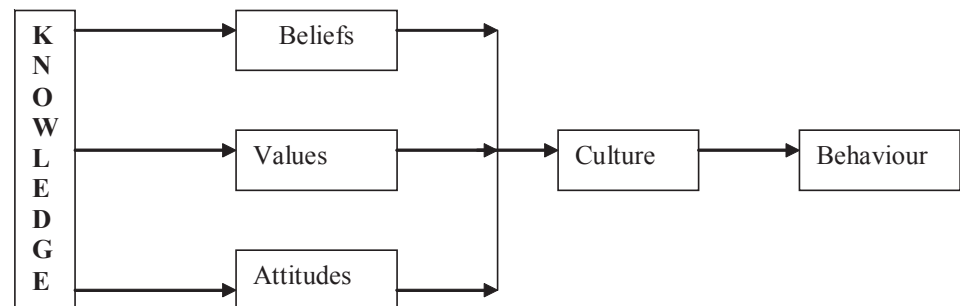


Fig. 1.4: Influence of Cultural Factors on Formation of Culture

- Cross-cultural studies which is essentially a comparative tendency in various fields of cultural analysis
- Any of various forms of interactivity between members of disparate cultural groups. This refers to cross-cultural communication, interculturalism, etc.
- The discourse concerning cultural interactivity. It is also referred to as cross-culturalism and includes multiculturalism, cultural diversity etc.

The most important part of the cross-cultural studies is cross-cultural communication, as it gives rise to another important process like cross-cultural



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negotiation. The study of cross-cultural communication was originally found within businesses and the government both seeking to expand globally. Businesses began to offer language training to their employees. Businesses found that their employees were ill equipped for overseas work in the globalizing market. Programs developed to train employees to understand how to act when abroad. Current cross-cultural training in businesses does not only focus on language training but also includes focus on culture training. Cross-cultural communication tries to bring together such relatively unrelated areas as cultural anthropology and established areas of communication. Its core is to establish and understand how people from different cultures communicate with each other. Its charge is to also produce some guidelines with which people from different cultures can better communicate with each other. The main theories for cross-cultural communication are based on the work done looking at value differences between different cultures, especially the works of Edward T. Hall, Richard D. Lewis, Geert Hofstede, and Fons Trompenaars.

Edward Hall developed the concept of "High context culture" and "low context culture", and wrote several popular practical books on dealing with cross-cultural issues. Hall first created the concept of "proxemics", or personal spaces. In his book, *The Hidden Dimension*, he describes the subjective dimensions that surround each of us and the physical distances one tries to keep from other people, according to subtle cultural rules.

**Proxemics** - The term was introduced by anthropologist Edward T. Hall in 1966 to describe set measurable distances between people as they interact. The effects of proxemics, according to Hall, can be summarized under a rule:

"Like gravity, the influence of two bodies on each other is inversely proportional not only to the square of their distance but possibly even the cube of the distance between them".

Body spacing and posture, according to Hall, are unintentional reactions to sensory fluctuations or shifts, such as subtle changes in the sound and pitch of a person's voice. Social distance between people is reliably correlated with physical distance, as are intimate and personal distance, according to the following delineations:

- Intimate distance for embracing, touching or whispering
  - Close phase - less than 6 inches (15 cm)
  - Far phase - 6 to 18 inches (15 - 45 cm)
- Personal distance for interactions among good friends
  - Close phase - 1.5 to 2.5 feet (45 - 75 cm)
  - Far phase - 2.5 to 4 feet (75 - 120 cm)
- Social distance for interactions among acquaintances
  - Close phase - 4 to 7 feet (1.2 - 2.1 m)
  - Far phase - 7 to 12 feet (2.1 - 3.6 m)
- Public distance used for public speaking
  - Close phase - 12 to 25 feet (3.6 - 7.5 m)
  - Far phase - 25 feet (7.5 m) or more

Hall notes that different cultures maintain different standards of personal space. In Latin cultures, for instance, those relative distances are smaller, and people tend to be more comfortable standing close to each other; in Nordic cultures the opposite

**Notes**

is true. Realizing and recognizing these cultural differences improves cross-cultural understanding, and helps eliminate discomfort people may feel if the interpersonal distance is too large (“stand-offish”) or too small (intrusive). Comfortable personal distances also depend on the culture, social situation, gender, and individual preference.

Proxemics defines three different types of space:

- Fixed-feature space – This comprises things that are immobile.
- Semifixed-feature space – This comprises movable objects, such as furniture. However, again, some furniture is fixed, and is classified as a fixed-feature.
- Informal space – This comprises the personal space around the body, that travels around with a person as he/she moves, and that determines the personal distance among people.

Proxemics also defines eight factors in non-verbal communication, or proxemic behaviour categories, that apply to people engaged in conversation:

**1. Posture-sex identifiers**

This category relates the postures of the participants and their sexes. Six primary sub-categories are defined: man prone, man sitting or squatting, man standing, woman prone, woman sitting or squatting, and woman standing.

**2. The sociopetal-sociofugal axis**

This axis denotes the relationship between the positions of one person’s shoulders and another’s shoulders. Nine primary orientations are defined: face-to-face, 45°, 90°, 135°, 180°, 135°, 90°, 45°, and back-to-back. The effects of the several orientations are to either encourage or discourage communication.

**3. Kinesthetic factors**

This category deals with how closely the participants are to touching, from being completely outside of body-contact distance to being in physical contact, which parts of the body are in contact, and body part positioning.

**4. Touching code**

This behavioural category deals in how people participants are touching one another, such as caressing, holding, feeling, prolonged holding, spot touching, pressing against, accidental brushing, or not touching at all.

**5. Visual code**

This category denotes the amount of eye contact between participants. Four sub-categories are defined, ranging from eye-to-eye contact to no eye contact at all.

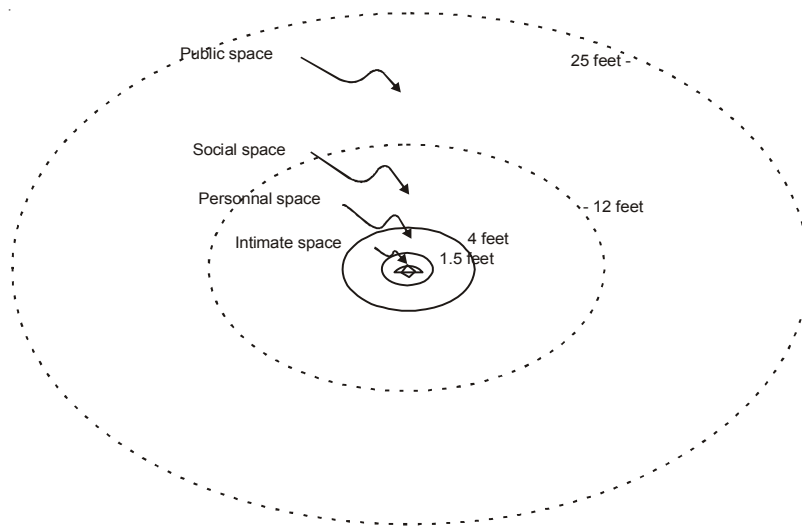
**6. Thermal code**

This category denotes the amount of body heat that each participant perceives from another. Four sub-categories are defined: conducted heat detected, radiant heat detected, heat probably detected, and no detection of heat.

**7. Olfactory code**

This category deals in the kind and degree of odour detected by each participant from the other.

## Notes



(Source: Hall, Edwards. T. 1966. *The Hidden Dimension*. Anchor Books)

## 8. Voice loudness

This category deals in the volume of the speech used. Seven sub-categories are defined: silent, very soft, soft, normal, normal+, loud, and very loud.

In his book *Beyond Culture* (1976), Hall has given the concept of '**high context culture**'. High context culture (and the contrasting 'low context culture') refers to a culture's tendency to cater towards in-groups, an in-group being a group that has similar experiences and expectations, from which inferences are drawn. In a high context culture, many things are left unsaid, letting the culture explain.

High context cultures are more common in the eastern cultures than in western, and in countries with low racial diversity. Cultures where the group is valued over the individual promote the in-groups and group reliance that favor high context cultures. Co-cultures are also conducive to high context situations, where the small group relies on their common background to explain the situation, rather than words. A low context culture explains things further, because those in a low context culture have a wide variety of backgrounds.

High context cultures have a strong sense of tradition and history, and change little over time. Many native societies (such as the Māori of New Zealand and the Native Americans) are high context cultures. The static culture keeps the high context throughout different generations. Low context cultures change drastically from one generation to the next, like the United States. High context cultures (and co-cultures) provide many opportunities for humor. However, a high context culture's jokes will not translate well to someone of a different culture. A lower context joke comes from a (possibly apocryphal) interaction between IBM and a Japanese hardware manufacturer. IBM requested parts from a trial project, with the specification "We will accept three defective parts per ten thousand." The Japanese manufactured the parts, and sent them with a note: "We, the Japanese people, had a hard time understanding North American business practices. But the three defective parts per 10,000 have been separately manufactured and have been included in the consignment. Hope this pleases you." The humor is inherent in the narrative, instead of from a common background.

An individual from a high context culture has to adapt, and/or be accommodated when shifting to a low context culture. High context cultures expect small close knit groups, and reliance on that group. Professional and personal lives often intertwine. A

**Notes**

low context culture demands independence, and expects many relationships, but few intimate ones. A high context individual is more likely to ask questions rather than attempt to work out a solution independently, and the questions are likely to be asked from the same few people.

**High Context Cultures**

Arab Countries  
Greece  
Japan  
Spain

**Low Context Cultures**

North America  
German-speaking Countries  
Scandinavian Countries  
France

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**1.9 SUMMARY**

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- Multinational Corporation (MNC) is an organization which operates in more than one country.
- Transnational Corporation (TNC) is an organization, that produces, markets, invests and operates across the world.
- Home Country/Parent Country is the one where the headquarters of an MNC or TNC is located.
- Host Country is the one where the subsidiary/branch of an MNC/TNC is located.
- Home country nationals/parent country nationals are employees of an MNC/TNC who are the citizens of home country/parent country of that MNC/TNC, but working in a subsidiary/branch MNC/TNC in host country.
- Host country nationals are employees of an MNC/TNC'S subsidiary/ branch who are the citizen's of the country where the subsidiary/branch of the MNC/TNC is located.
- Third country nationals are employees of an MNC/TNC or their subsidiaries /branches, and are citizens of those countries other than the MNC/TNC's home country and/ or host country.
- Expatriate is an employee working and living in a foreign country where he/ she is a non-citizen.
- Work permit is a document issued by the Government of the Country concerned (mostly by the Department of Immigration) granting right to foreigners to seek employment in the country concerned.
- With distinctive and rare skills are invited to perform certain activities during a specified period. Such foreign employees are called 'guest employees'.
- IHRM is defined as, performing HRM and its related activities and arranging for related and necessary immigration facilities for prospective and current expatriate employees, by organizations operating in domestic and/or foreign countries.
- Domestic is different from International HRM due to various aspects like (i) wider nationalities of employees, (ii) variety of functions to be performed, (iii) influence of international environment, (iv) broader and deeper relationships, (v) different approaches for the domestic functions and (vi) enduring complexity of domestic HRM activities.

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**1.10 KEY TERMS**

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*Notes*

- Multinational Company
- Home Country National
- Third Country National
- Inpatriate
- Visa
- Host Country
- Parent Country National
- Transnational Company
- Host Country National
- Expatriate
- Work Permit
- Subsidiary
- Home Country
- Guest Employee

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**1.11 REVIEW QUESTIONS**

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1. Discuss various terms and concepts related concerning international human resource management.
2. Explain why confusion arises in describing the meaning of 'expatriate'.
3. What are the different activities involved in international human resource management?
4. Define the term 'international human resource management'.
5. Discuss the differences between domestic human resource management and international human resource management.
6. What are the different enduring complexities of international human resource management?
7. What are the deeper relationships involved in international human resource management?
8. What are the different approaches for the domestic functions of human resource management?
9. Discuss the wider nationalities involved in international human resource management.

# 2

Unit

## MANAGING CULTURE DIVERSITY

### Objectives

This unit focuses on:

- Understand the meaning of culture and factors that contribute to the culture;
- Discuss the causes for cross-cultural differences at the work-place;
- Analyze the reasons responsible for workforce diversity;
- Understand the glass ceiling for women and employees who belong to minority groups and strategies to break them;
- Understand the modes of mobility of human resources across countries, consequent upon globalization;
- Discuss the strengths and weaknesses of diversity of workforce and need for managing workforce diversity;
- Analyze the individual, organizational, national and international strategies for managing workforce diversity.

### Structure:

- 2.1 Introduction
- 2.2 Cross-cultural Differences in the Workplace
- 2.3 Cultural Sensitivity
- 2.4 Cross-cultural Communication Process and Negotiations: Planning and Preparation Parameter
- 2.5 Types and Strategies of Organization Culture
- 2.6 Summary
- 2.7 Key Terms
- 2.8 Review Questions

**2.1 INTRODUCTION**

Visiting, living and working in foreign countries have increasingly becoming common after the recent phase of globalization resulting in contacting and interacting among people from various cultures both at work place and social spheres that lead to cultural exchange and sharing of cultural values and practices. Consequently, countries are becoming more and more multi-ethnic. Thus, employees of MNCs as well as domestic companies employing expatriates, experience cultural diversity and thereby complexity.

Now, we shall discuss what is culture? What factors make the culture? And why cultures of people differ?

**2.2 CROSS-CULTURAL DIFFERENCES IN THE WORKPLACE**

People with different cultural backgrounds behave differently even at the workplace. For example, people of eastern cultures do not normally seek appointment to meet the superior at the workplace; whereas the western cultures require prior appointment to meet the superior at the workplace even to discuss the work related routine issues. Exhibit 2.1 presents work behaviour associated with different cultural values.

**EXHIBIT 2.1: WORK BEHAVIOUR ASSOCIATED WITH DIFFERENT CULTURAL VALUES**

<p><b>Cultural Dimension: The Nature of People</b></p> <ul style="list-style-type: none"> <li>American orientation/behaviour: People can change. Therefore, training is valuable because it gives people an opportunity to learn on the job.</li> <li>Contrasting orientation/behaviour: People cannot change. The organization should emphasize selection over training. Select the right person for the job, and do not expect him or her to change.</li> </ul> <p><b>Cultural Dimension: How People Relate to Others</b></p> <ul style="list-style-type: none"> <li>American orientation/behaviour: People are individualistic. People should be hire don't he basis of merit.</li> <li>Contrasting culture/behaviour: Relationships dominate over individualistic concerns. The CEO's relative should be hired for the job.</li> </ul> <p><b>Culture Dimension: Primary Mode of Activity</b></p> <ul style="list-style-type: none"> <li>American orientation behaviour: Active, Employees should work hard to achieve goals.</li> </ul>	<ul style="list-style-type: none"> <li>Contrasting orientation/behaviour: Passive. Employees should work only as hard as needed to be able to live.</li> </ul> <p><b>Cultural Dimension: Conception of Space</b></p> <ul style="list-style-type: none"> <li>American orientation/behaviour: Private. Executives should hold important meetings behind closed doors and have the secretary screen all interruptions.</li> <li>Contrasting orientation/behaviour. Public. Executives should hold important meetings in an open area, allowing for interruptions from employees and visitors.</li> </ul> <p><b>Cultural Dimension: Time Orientation</b></p> <ul style="list-style-type: none"> <li>American orientation/behaviour: Future/present. Policy statements refer to long-term goals, while keeping a focus on this year's bottom line and quarterly reports; innovation and flexibility to meet a dynamic and changing future are emphasized.</li> <li>Contrasting culture/behaviour: Past policy statements this year reflect policy statements 10 years ago. The company intends to perform in the future as it has done in the past.</li> </ul>
<p><i>Source:</i> Adapted from Adler, N.J. International Dimensions of Organizational Behaviour Boston: PWS-Kent. Quoted in Lawrence S. Kleiman, "Human Resource Management, Biztantra, New Delhi, p.440.</p>	

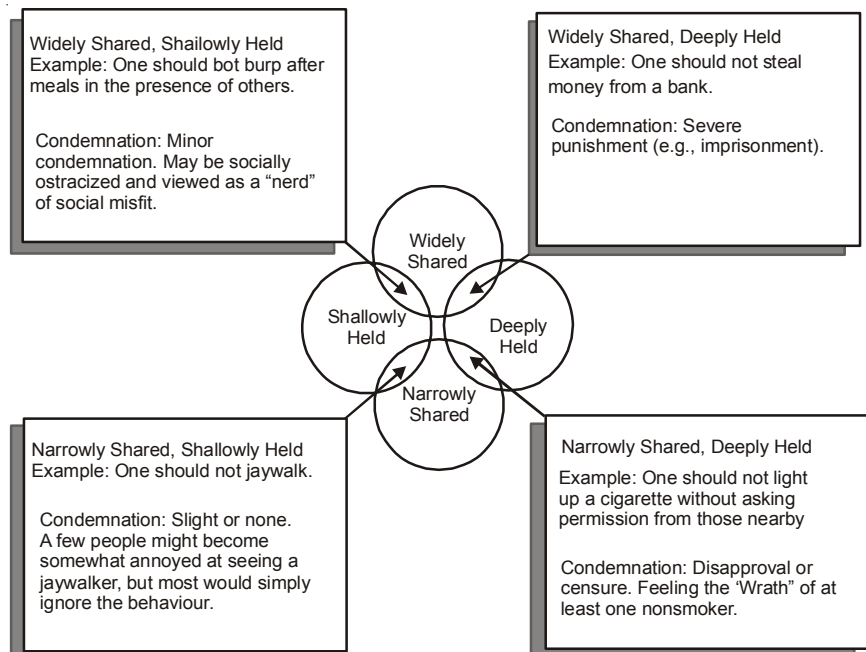
**Notes**

Cultures sometimes clash due to different behavioural expectations. For example, problems in Japan, Papua New Guinea and India (in fact in most of the eastern countries) are normally resolved behind closed doors. Any potential danger for public embarrassment in business activities or negotiations and work related activities in eastern countries is carefully eliminated in advance.

Most of the western cultures, including that of the USA require the conflict to be brought out in the open and discussed in public and face-to-face. Therefore, managers with western culture when work with the managers with eastern cultures bring different sets of values to each and every interaction. This situation often results in cultural conflicts.

**Reaction to Cultural Improprieties**

Culture imposes norms for people's behaviour in different situations. People feel uneasy, anxious and threatened when they violate the cultural norms. People who don't follow cultural values and norms are often punished or looked down or condemned by others of the society. The condemnation depends on (i) the extent to which the broken rule is widely shared among the people of the same culture, and (ii) the extent to which the rule is deeply held and viewed as being important or sacred. Fig. 2.1 depicts the degree of condemnation associated with breaking different types of cultural rules. People should learn the cultural rules and degree to which the people of the culture hold then, when working the people of other cultures.



Source: Black, J.S., and Mendenhall, M. (1993). Resolving Conflicts with the Japanese: Mission Impossible? Sloan Management Review, 34 (3), pp. 49-59.

**Fig. 2.1: The Degree of Condemnation Associated with Breaking Different Types of Cultural Rules**



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## 2.3 CULTURAL SENSITIVITY

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### Notes

International human resource managers have to take care to avoid misunderstandings by understanding cultural differences as one has to be sensitive to the culture of the host country. In fact, all cultures are good as they are evolved over a period of time based on the then local conditions. However, culture can be changed when such conditions tend to change or disappear.

Cultural sensitivity is to have the empathy to accept cultural differences without allowing one's own values to surface in unproductive or confrontational ways. Therefore, individuals have to understand cultural differences and follow them rather than openly judgemental of the culture of the land.

As discussed earlier all cultures are good and therefore employees and managers of global companies, when they work in foreign countries should avoid ethnocentric/parochial behaviour. Ethnocentrism is a way of believing and saying that people tend to believe their way of doing something is always best/right and impose such beliefs on others. Parochialism implies an expectation from others that they will readily adopt to their standards of behaviour.

**Ethnocentrism:** A way of believing and saying that people tend to believe their way of doing something is always best/right and impose such beliefs on others.

A study on Japanese managers working in Germany, the Japanese viewed their counterparts as abusive, argumentative, blunt and uncooperative, while German managers viewed Japanese managers as arrogant, reclusive and indecisive. Both the groups tried to understand other group negatively due to lack of cultural sensitivity. This attitude caused strained relationships.

### Cultural Attitude and International Business

Dressing habits, living styles, eating habits and other consumption patterns, priority of needs are dictated/influenced by culture. Some Chinese and most of the Indians do not consume beef. Thailand Chinese believe that consumption of beef is improper and Indians (particularly Hindus) believe that eating beef is a sin as they believe cow is sacred (*Kamadhenuvu*).

The eating habits vary widely. Chinese eat fish stomachs, and bird's nest soup, Japanese eat uncooked sea food, Iraqis eat dried, salted locusts and snakes while drinking. The French eat snails, Americans and Europeans eat mostly non-vegetarian food. Indians eat mostly vegetarian food. It was surprising to the rest of the world to know that there were pure vegetarians in India.

However, the foreign culture regarding food has been adapted, *Masala dosa* and *Hyderabadi Biryani* have become popular in Europe and the USA whereas Pizzas have become popular in India (See Box 2.1).

## Notes

**BOX 2.1 : IN INDIA, PIZZAS ARE NOW THE FLAVOUR OF THE SEASON**

Chicken tikka masala may be ruling the roost in Britain, but in curry country – India – pizzas are the flavour of the month. Take, for example, Neelam Mehta. Whenever she hears the question “What’s for dinner, mum?” after she comes home from her Delhi office, her answer is often the same : “Pizza”. “It’s the easiest thing to do. Just pick-up the phone and order. I don’t have to sweat it out in the kitchen at the end of the day,” said Mehta, an Indian exporter with two teenage sons. Ever since India threw open its economic doors in the early 1990s, a host of global pizza chains including Pizza Hut, run by Yum! Brands Inc, and Domino’s Pizza have been fighting for a slice of the country’s growing pizza market.

*Source: Deccan Chronical, July 22, 2003,*

*Similarly*, dressing habits also vary from country to country based on their culture. We observe different dress styles of the West, Middle East, India, Pacific etc. Wearing ‘saree’ by Indian women is influenced by the culture. *Similarly*, wearing ‘burka/parda’ by the women of the Middle East is another example for the influence of culture on the dressing habit.

The international businessmen should eliminate the SRC effect in order to understand the foreign cultures as they have to carry on business under the existing cultures. Most of the businessmen of the USA react to the methods in ethnocentric terms and prefer to conduct business on Western lines though they know the cultures of Asia and Africa. The businessman should eliminate the influence of SRC as it helps to prevent a transfer of personal culture to the overseas market. This awareness helps the manager to formulate customer-oriented strategies and avoid the possible failures. (See Box 2.2).

**BOX 2.2 : CULTURAL DIMENSION, CULTURAL PRESERVATION OR ETHNIC CLEANSING?**

According to France’s Culture Ministry, while American films are responsible for more than 60 per cent of French theaters’ movie revenues, French films account for only 0.5 per cent of the American market. Although Europe imports \$3.8 billion worth of audiovisual products yearly, it exports only \$250 million worth. Gerard Depardieu, France’s movie star, claims: “European cinema is in danger of dying.... We aren’t able to compete on equal terms with American giants.” France’s Communications Minister, believing that the audiovisual industry should be excluded from any GATT negotiation and agreement, argues: culture can’t be considered just another type of merchandise.”Although the love of sports is a universal trait, it is not entirely culture-free, at least not to the Canadian government. Ottawa announced its plans to impose a surtax on the Canadian edition of Sports Illustrated. The Canadian Heritage Minister argued that the tax was necessary to protect Canada’s national cultural identity. The tax was supposed to serve to ensure the viability of the industry rather than restrict Canadians’ access to foreign cultural products. Previously, the Canadian Radio-Television Communications Commission evicted the Nashville-based Country Music Television from Canadian cable TV networks.

*Source: “U.S. Cries Foul over Canadian Sports Illustrated Surtax,” San Jose Mercury News, 23 December, 1994; and “French Call to Arms Against US Films, Television Shows,” Bangkok Post, 19 September, 1993.*

Guidelines for the businessman when they launch business in foreign countries:

- (a) resist the tendency to conduct business immediately on landing, and at all times,
- (b) offer favours as a business tool to generate allies, (c) contact, cultivate and conduct field work among at least one sample clientele to serve as an initial testing centre for the firm’s product, (d) introduce the product line into the sample group by local firms of cause-related marketing and (e) extend product acceptance beyond the sample

clientele into related market segments. Businessmen should follow these guidelines in order to prevent possible failures (See Box 2.3).

**Notes**

**BOX 2.3: DISNEY IN FRANCE: CULTURAL ISSUES**

Disney with its success in park business and entertaining children in USA entered Japan in 1983 and became successful there too. Disney decided to enter Paris, France market too in 1986 owing to lactational advantage of Paris and availability of subsidies and incentives by French Government. Disney had problems of negotiations with France Government and also unwillingness of French people to accept Disney. Despite these problems, Disney opened the park in 1992 summer. Soon after the opening, French farmers drove their tractors and blocked the entrance. Later, there were a number of operational deviations like Disney's policy of serving no alcohol, serving less quantity of breakfast, lunch timings, non-suitability of teamwork for the employees of Disney of Paris. These problems resulted in a cumulative loss of \$2 billion by the end of 1994.

*Source:* Adopted from Charles W.L. Hill, *International Business*, Tata McGraw-Hill, New Delhi, 2003, pp.119-12.

## 2.4 CROSS-CULTURAL COMMUNICATION PROCESS AND NEGOTIATIONS: PLANNING AND PREPARATION PARAMETER

In some countries like the USA, Canada, Germany and Switzerland the messages that the people convey are explicit and clear. They use the actual words to convey the information. These cultures are called 'low-context cultures.'

In countries like India, Japan, Saudi Arabia, and other middle eastern Arab countries, communication is mostly indirect and the expressive manner in which the message is delivered becomes critical. Much of the information is transmitted through non-verbal communication. These messages can be understood only with the reference to the context. Such cultures are referred to as, "*high-context cultures.*"

According to Hall, cultures also vary based on the manner of information processing. Cultures which handle information in a direct, linear fashion are called, "*monochromic.*" Americans are more monochromic. Americans' fast tempo and demand for instant responses are viewed as pushy and impatient. The other type of culture is '*polychromic.*' In this culture, people work on several forms simultaneously instead of pursuing a single task. Japanese and Indians belong to polychromic culture.

Cultures also vary based on the manner of information processing.

*American businessmen consider the failure of the Japanese to make eye to eye contact as a sign of rudeness whereas, the Japanese do not want to look each other in the eye as eye-to-eye contact is an act of confrontation and aggression. (See Exhibit 2.2)*

Examples of low context, high context cultures and monochromic and polychromic are:

*Germany:* Monochromic and low context culture.

*France:* Polychromic and high context culture.

The possible confrontation would be a low context German may insult a high context French counterpart by giving too much information. In contrast, a German (low context) becomes upset when he feels that he does not get enough data and details from the Frenchman.

## Notes

## EXHIBIT 2.2: AMERICANS AT A GLANCE

1. Goal and achievement oriented—Americans think they can accomplish just about anything, given enough time, money, and technology.
2. Highly organized and institutionally minded—Americans prefer a society that is strong institutionally, secure, and tidy or well kept.
3. Freedom-loving and self-reliant—Americans fought a revolution and subsequent wars to preserve their concept of democracy, so they resent too much control or interference, especially by government or external forces. They believe in an ideal that all persons are created equal: though they sometimes fail to live that ideal fully, they strive through law to promote equal opportunity and to confront their own racism or prejudice. They also idealize the self-made person who rises from poverty and adversity, and think they can influence and create their own futures. Control of one's destiny is popularly expressed as "doing your own thing". Americans think, for the most part, that which determination and initiative, one can achieve whatever one sets out to do and thus fulfill one's individual human potentials.
4. Work oriented and efficient—Americans possess a strong work ethic, though they are learning in the present generation to enjoy leisure time constructively. They are conscious of time and efficient in doing things. They tinker with gadgets and technological systems, always searching for easier, better, more efficient ways to accomplish tasks.
5. Friendly and informal—Americans reject the traditional privileges of royalty and class, but defer to those with affluence and power. Although informal in greeting and dress, they are a noncontact culture (e.g., avoid embracing in public usually) and maintain a certain physical/psychological distance with others (e.g., about 2 feet).
6. Competitive and aggressive—Americans in play or business generally are so oriented because of their drives to achieve and succeed. This is partially traced to their heritage of having to overcome a wilderness and hostile elements in their environment.
7. Values in transition—traditional American values of family loyalty, respect and care of the aged, marriage and the nuclear family, patriotism, material acquisition, forthrightness, and the like are undergoing profound reevaluation as people search for new meanings.
8. Generosity—Although Americans seemingly emphasize material values, they are a sharing people, as has been demonstrated in the Marshall Plan, foreign aid programs, refugee assistance, and their willingness at home and abroad to espouse a good cause and to help neighbors in need. They tend to be altruistic and some would say naïve as a possible.

*Source:* From *Managing Culture Differences* by Philip R. Harris and Robert T. Moran, 5<sup>th</sup> ed. By Gulf Publishing Company, Houston, TX. Used with permission. Quoted in Helen Deresky, *op.cit.*, p.106.

### Cultural Universals

Irrespective of the religion, race, region, caste etc. all of us have more or less the same needs. These common needs are referred to as 'Cultural Universals.' Murdock has identified Cultural Universals like athletic, sports, bodily adornment, cooking, dancing, singing, education, joking, kin groups, status differentiation and dream interpretation.

The cultural universals enable the businessmen to market the products in many foreign countries with modifications. *For example*, TVs, cars, video games. Culture is not a barrier to computer software.

As such, computer software industry of the USA, Europe and Australia has been attracting most of the Indian computer software engineers. Other examples include diamonds, gold ornaments, flowers which have world wide demand. Many

managers felt that Japanese would not eat “black food”, when Yamazaki-Nabisco thought of introducing Oreo Cookies in Japan. But the Oreo Cookies became number one cookies in Japan. Cultural universals do not mean that two cultures are not very much close to each other. (See Exhibit 2.3).

**EXHIBIT 2.3: FUNDAMENTAL DIFFERENCES BETWEEN JAPANESE AND MEXICAN CULTURAL THAT AFFECT BUSINESS ORGANIZATIONS.**

Dimension	Japanese Cultural	Mexican Culture
Hierarchical nature	Rigid in rank and most communication; blurred in authority and responsibility	Rigid in all aspects
Individualism vs. collectivism	Highly collective culture; loyalty to work group dominates; group harmony very important.	Collective relative to family group; don't transfer loyalty to work group; individualistic outside family.
Attitudes toward work	Work is sacred duty; acquiring skills, working hard, thriftiness, patience and perseverance are virtues	Work is means to support self and family; leisure more important than work.
Time orientation	Balanced perspective; future oriented; monochromic in dealings with outside world	Present oriented; time is imprecise; time commitments become desirable objectives.
Approach to problem solving	Holistic, reliance on intuition, pragmatic, consensus important	Reliance on intuition and emotion, individual approach.
Fatalism	Fatalism leads to preparation	Fatalism makes planning, disciplined routine unnatural.
View of human nature	Intrinsically good	Mixture of good and evil.

*Source: J.J. Lawrence and Ryh-song Yeh, “The Influence of Mexican Culture on the Use of Japanese Manufacturing Techniques in Mexico, “Management International Review 34, no. 1(1994): 49-66, Quoted in Helen Deresby, International Management, Prentice Hall of India, 2004, p.103.*

**Communication Through Languages**

Language is the basic medium of communication. There are more than 5,000 spoken languages in the world. The same words in the same language may mean different things in the different regions of the country.

Safe rules in international communication are:

- Over-punctuate, when you are in doubt.
- Keep ideas separate, making only one point at a time.
- Confirm discussion in writing.
- Write down all figures using the style of the person you are talking to.
- Adjust your language to the level of your foreign counterpart.
- Use visual aids whenever, possible.
- Avoid technical, sports and business jargon.

## Notes

In other words, *“speak to the rest of the world as if you were answering a slightly deaf, very sick old auntie, who just asked you how much to leave for you in her will.”*<sup>11</sup>

### Non-Verbal Communication

People also communicate through non-verbal medium. Non-verbal communication mean differently in different cultures.

*“As stated earlier, prolonged eye to eye contact is polite in the USA and rude in Japan, Indian and Lino cultures.”*

Some other non-verbal communication clues include:

- Sitting at a table around a corner signals cooperation and active listening.
- Sitting straight across from one another signals confrontation.
- Sitting side by side makes conversation awkward.
- Standing in presence of the elders and superiors signals respecting them in India.

Indians offer food or beverages to the guests first. They start eating only after the guests start eating. Americans or Europeans generally do not offer food or beverages or even water. They eat in the presence of guests without offering them. Indians respect the guests. In fact, they treat the guest equal to God (*Athithi Devo Bhava*). Similarly, they respect the teacher also. They greet the guests, elders and teachers with the folded hands (*i.e.*, giving the treatment equal to God).

“Indonesians are polite people. A business guest will often be served something to drink and should not reach for his drink until the host gestures to do so. It is polite to at least taste the drink or any food offered. Indonesians are not known for their punctuality, so one should not get offended, if functions do not start on time or if your guest arrives late. Indonesians avoid the use of the left hand when offering food and other objects as it is regarded as the unclean hand. It is also considered rude to point with a finger.” Most of these are applicable in India, and other Asian countries.

It is always appropriate to appreciate the cultural differences in language (both verbal and non-verbal).

### Time and Culture

Time has different meaning in different cultures. Asians do not need appointment to meet someone and *vice versa*. But Americans, Europeans and Africans need prior appointment to meet someone and *vice versa*.

Friday in the Middle East is just like Sunday in the West. Time is money for Americans both for work and leisure and enjoyment. Time takes a more “leisurely walk” and there is no urgent work in most of the non-Western societies. In general there is a lack of punctuality in Asian and African cultures. Swedish people are very prompt. Chinese are very much punctual for social occasions and appointments.

In Asian countries, particularly in India, auspicious time is most important for business deal, admission in a college, travel, starting a new project/work etc.

## Space and Culture

## Notes

Space between one person and another person plays significant role in communication. But culture determines the distance/space between one person and another person. Latin Americans are comfortable with a few inches of distance. Asians need substantial conversational distance and no physical contact. This is followed strictly in case of people of opposite sex. Americans need more distance from a third person for privacy. This is unimportant for Indians.

## Culture and Agreement

United States of America is a very legalistic society and Americans are very specific and explicit in their terms of agreement. The opposite is true in case of Asian countries. Asians never pick up face to face confrontation. They keep quiet in case of disagreement.

A South Korean or an Indian businessman considers a contract as loosely structured consensus statement that allows flexibility and adjustment. In silicon valley area of California, the culture is characterised by multiculturalism and diversity. There, American cultures are characterised by straightforward approach, while Asian cultures do not teach workers to argue point-blank with immediate superiors.

## Culture of Friendship

Americans develop friendship even in a short time. In fact, they don't develop deep personal ties. Sometimes, people in the US complete the business and then develop friendship.

People in Japan and China first develop friendship through several means including eating together and then transact business. (See Box 2.4). General Motor Corporation has learnt this culture. In Turkey, *"Let us make friends first and then see, if we can conduct business."* Once a business meeting between an American and an Italian was conducted over dinner. The Italian client appeared next morning with the signed contract. The US company, although pleased, was surprised.

Americans use the first name but the French people and most northern Europeans feel it offensive. In Germany, only relatives and close friends call by the first name. "In Australia and Venezuela, the proper waiting time could be five minutes, in Argentina, Germany and France one year, in Switzerland three years, and in Japan a decade."

### BOX 2.4: IMPACT OF CROSS-CULTURAL COMMUNICATION HOW TO WIN FRIENDS AND INFLUENCE PEOPLE

Despite a growing sentiment for trade protectionism in the U.S. Congress, Japan has been relatively successful in influencing U.S. lawmakers' trade decisions. Japan's effectiveness can be attributed to its philanthropy and long-term, systematic, and coordinated "soft-side" activities. These activities include channeling tens of millions of dollars into American education at all levels and donating money for museums and public TV stations. Japan Foundation spends \$ 5 million a year on exchange programs, education, and libraries. To foster goodwill while gaining research ideas, Japanese companies have endowed sixteen chairs at \$ 1.5 million each at MIT while spending \$4 million a year for research access. As evidenced by their donations to minority groups (e.g., United Negro College Fund, NAACP), Japanese firms have learned the U.S. concept of private citizens working for the public cause.

Source: "Japan's Clout in the U.S.," *Business Week*, 11 July 1988, 64ff; and *This Is Toyota, U.S.A.*, 1994.



**Notes****Culture and Negotiation**

Americans are straightforward. Chinese negotiations are generally tough-minded and well prepared and use various tactics to secure the best deal.

**Culture and Superstition**

Superstitious beliefs like fortune telling, palm reading, dream analysis, phases of the sun and the moon, birth date and time analysis, *vaastu* are more prominent in Asian countries and also in some of the African countries. Americans knock on wood, cross their fingers and feel uneasy when a black cat crosses their path. Even Indians feel uneasy when a cat crosses their path.

**Culture and Gifts**

Culture attitudes concerning the presentation of gifts vary widely across the world. In Japan and India gifts are given first, but in Europe only after a personal relationship is developed. The international businessman should study the customs of the society in offering gifts. Clocks are a poor choice of gifts in China and Taiwan, Knife is poor choice in France, Russia, Germany and Thailand and Handkerchiefs in Thailand, Italy, Brazil and Venezuela.

**Managing Diversity of Workforce: Strengths and Weaknesses**

Diversified workforces bring talents, skills, knowledge and expertise that invariably being core competencies and sometimes distinctive competency and thereby competitive advantage to the company. In addition, diversified cultures bring multi-approach to decision-making and thereby enhance decision-making abilities of MNCs. However, diversity also becomes a potential source for conflict via misunderstanding. Thus, diversity has both positive and negative aspects like 'every coin has two sides'. Therefore, MNCs should manage diversity in order to maximize the positive aspects and minimize the negative aspects of diversity. Table 2.2 provides the strengths and weaknesses of workforce diversity to MNCs.

**TABLE 2.2:**  
**STRENGTHS AND WEAKNESSES OF DIVERSITY OF WORKFORCE TO MNCs**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Competitive advantage</li> <li>• Multi-ethnic unified societies at workplace</li> <li>• Efficient implementation of organizational strategies</li> <li>• Repeats undesirable unity among employees</li> </ul>	<ul style="list-style-type: none"> <li>• Potential source of conflict</li> <li>• Delay in decision-making</li> <li>• Communication distortions</li> </ul>
<p><i>Source:</i> Adapted from Paul Davidson and Ricky W. Griffin, "Management", John Wiley &amp; Sons Australia Ltd., Milton, 2002, p.147.</p>	

**Diversity Provides Competitive Advantage**

Employees with diversified background bring diversified skills, knowledge, and culture in addition to talent needed by the job. In addition, employees with diversified backgrounds can bring original ideas and approaches to the work place that help a



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company target products and services to a market place that itself is becoming more and more diverse. For example, a group of Reebok's female employees once bemoaned the fact that they could not find a good aerobics shoe. Reebok immediately concentrated on marketing aerobic shoe. Within two years, the company became a leader in athletic shoe industry, transforming itself from a \$12 million a year company to a \$3 billion power house. These diverse skills, knowledge and challenge pose contribute to formulation and implementation of most appropriate strategies. These efforts would contribute to the achievement of organizational goals like productivity, profit ability, market share, cost leadership and the like. Organizations found that diversity improve productivity and provided competitive advantage at the marketplace. Diversity contributes to competitiveness through attraction of resources, creation and innovation, harmony, cost savings, marketing, problem solving skills, flexibility and adaptability and formulation of appropriate strategies. Fig. 2.2 presents the factors contribution to competitive advantage.

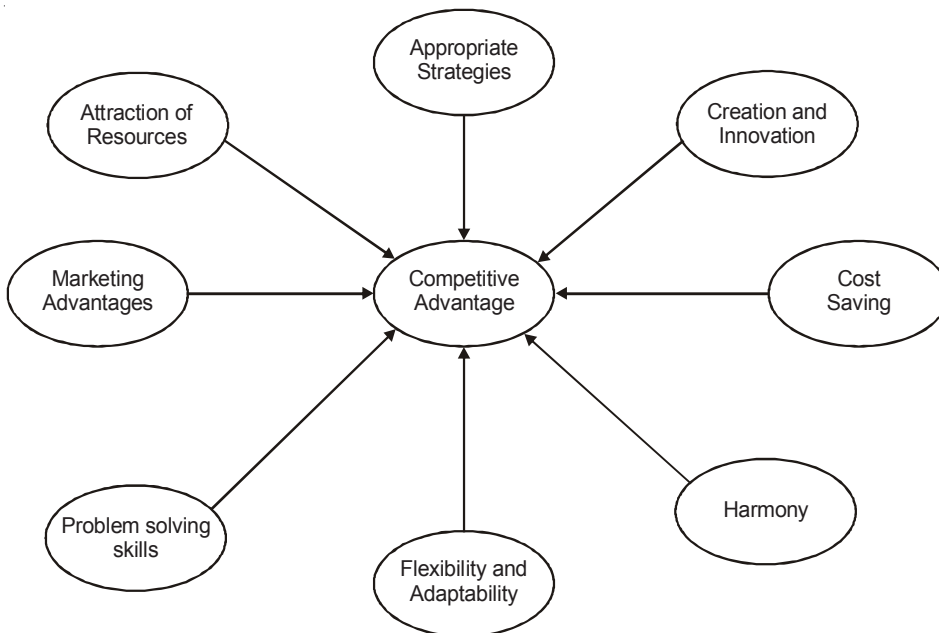


Fig. 2.2: Factors contributing to Competitive Advantage

Now, we discuss the factors that contribute to competitive advantage of MNCs.

**Attraction of Resources:** Diversified workforces bring varied knowledge about the availability of resources in terms of quality, price, and delivery from different countries. These diverse employees provide this information along with sources, networking and authenticity. Management in turn can make use of this knowledge and:

- Procure best quality of resources,
- Appropriate quality of resources at low price,
- Improve delivery schedules, and
- Develop new network for resources.

Examples in this regard include, University of Papua New Guinea's Bookshop could import the Indian textbooks and acquired the advantage of low price based on

## Notes

## BOX 2.5: WAL-MART TO HELP BOOST DIVERSITY

Wal-Mart, the world's largest retailer, is backing a new \$25m (£14m) initiative to support businesses owned by women and ethnic minority groups.

The firm is setting up a private equity fund to invest in such companies, which serve the retail distribution sector. Funding will be available to help firms in making acquisitions, launching new ventures and other expansion efforts. Wal-Mart faces a class action lawsuit from 1.6 million current and former female staff alleging discrimination. The lawsuit – the biggest civil rights case against a private employer in US history – alleges the retailer discriminates against its female staff regarding pay and promotions. The company denies discrimination and is appealing a ruling last year giving the suit class action status. In class action cases, anyone who finds themselves in the same situation as those suing are covered by the outcome even if they are not one of the plaintiffs.

**Filling a Void**

Wal-Mart will invest in up to nine businesses through the fund – to be managed by Texas company Aldus Equity – over a five-year period. With only 2% of all US venture capital funds currently investing in minority businesses, Wal-Mart said the initiative would fill a "significant void". "This fund complements and extends our company's long-standing supplier diversity programs," said Esther Silver-Parker, the firm's vice president of diversity relations. Wal-Mart has been seeking to answer its critics which have accused it of a poor record on diversity, pay, employment benefits and labour rights. Earlier this year, the firm took out a series of adverts in national newspapers in which it said that the company's activities were "good for consumers, good for communities and good for the US economy".

*Source:* <http://news.bbc.co.uk/2/hi/business/4355910.stm> (Accessed on 21/06/07).

the information provided by the author. Employee referrals are another example, which helped many MNCs, particularly software companies in acquiring the best qualified employees at less cost of recruitment and at a fast rate.

Further, people spread the message about the MNCs best practices, when MNCs recruit manpower exclusively based on the merit and suitability. This message would further help MNCs to secure the best talent in the years to come. (See Box 2.5).

**Marketing Advantage:** Diverse workforce with varied economic backgrounds understand the tastes and preferences of customers of all income brackets. Similarly, the diverse workforces from different religions understand the needs of the customers from varied religions. This is more applicable for the food industry, hotel industry and tourism industry. Hotels like Holiday Inn and Crowne Plaza attract the employees from different countries and religions. Similarly food processing industry, particularly targeting Indian market attract the employees belong to 'Hindu' religion. And, food processing industry targeting Arabian markets attract employees from 'Muslim' religion. Caterers for Airlines companies invariably, appoint candidates from the major religions. In addition, MNCs attract candidates for different countries for their research and development departments, in order to draw the cultural knowledge of various countries while developing products.

**Problem Solving Skills:** Problem solving skills include diagnosing the problem, developing alternatives and selecting the best alternative. People with varied backgrounds come up with unique knowledge and therefore they can diagnose the problem from their angle reflecting their unique knowledge. For example, Mudra Communications Limited invites all employees including cleaners and office-boys

while developing an 'advertisement' and ask every one to criticize it. The company modifies its advertisements based on the comments of the cleaners also in the company. In fact, these modified advertisements were quite effective.

The diversity of the workforce also helps in developing alternative solutions to the problem based on their background. In fact, Indian doctors in American hospitals were quite efficient in diagnosis as well as suggesting alternatives based on their knowledge at home. Thus, more diversity results in a higher probability of identifying the problem correctly and developing better solutions to the problem identified.

**Flexibility and Adaptability:** Employees who are selected exclusively based on the talent by MNCs and posted in a country other than their home country, invariably start adapting themselves to the environment and situations. Later, they would be habituated to adapt themselves to the changing organizational requirements, requirements of the superiors, and situations. Later, they become flexible towards various organizational systems like technology, manufacturing, marketing and human resource. This flexible and adaptable nature of the workforce enable the MNCs to formulate and implement strategies based on environment as human resource would not hinder the strategic management process. Thus, workforce diversity allows the organization to respond to the environmental demand aptly.

**Harmony:** Diversified workforces mostly do not stick to parent ego. They respond to others' ego and normally are either in adult ego or in child ego as studied in 'Transactional Analyses' of "Organizational Behaviour" course/subject. Therefore, picking up a conflict in diversified workforce environment would be remote. Further, the purpose for expatriates living and working in a foreign country is not to acquire political power, but to serve the organization and achieve career goals. Therefore, diversified workforce, mostly avoid conflicts and disputes at workplace and strive for harmony at workplace and congenial working relations.

**Cost Saving:** Diversity in workforce would be the result of best human resources from various countries, irrespective of home country nationals or host country nationals' considerations. Therefore, most of the employees of MNCs in diversified workforce environment would be expatriates, whose major concern in a foreign country is full commitment to the job. This in turn results in increase in productivity. Further, the best talent contributes to the cost minimization in all spheres including sourcing the resources at cheaper prices, bringing innovations and the like. These measures ultimately result in performing at the lowest possible cost and thereby save the cost.

**Creation and Innovation:** MNCs, under geocentric/global approach to recruitment acquire the best human resource world-wide. This best talent would generally possess innovative and creative skills contributing to development of new products, new systems, new technologies, new customer needs and new markets. For example, Tixana an Australian company found commercial uses for fiber by-products of tofu and could produce a range of health food snacks now marketed worldwide. This could happen due to its diversified workforce.

**Appropriate Strategies:** Workforce diversity brings experienced, broad mined and talented personnel. In addition, it brings wide arena of knowledge about markets, products, customer needs and culture, economic and technological factors, government policies, political issues, social systems and natural factors. Employees with such

**Notes**

wide area of knowledge, coupled with full organizational commitment formulate most appropriate strategies for MNCs.

**Diversity Brings Multi-ethnic Unified Society**

Employment of human resources exclusively based on suitability to the job results in multi-ethnic society at the workplace. The people from different countries, from different religions, different races and different cultures form the workforce of MNCs. These employees develop working relations and later develop social relations among themselves. They respect each other's religion; culture and ethnic group, develop a common society and therefore, a common culture. People share and exchange their social and cultural values and practices, and build a common society, where people from diversified culture live in harmony. Thus, diversity forms a unified society out of multi-ethnic and diverse societies. This unified society builds social relations at workplace and helps to bring 'unity among diversity' to the organizational culture.

**Diversity Enables Efficient Implementation of Organizational Strategies**

Multi-cultural society has been replacing the 'mono-cultural' society and multi-thinking business environment has also been replacing 'mono-thinking' business environment in MNCs mostly due to diversified workforce. Multi-thinking environment at work place enable employees to analyze a problem from multiple angles based on multiple backgrounds. In fact, employees discuss the problems/opportunities with an open mind and mostly based on the merits of the case rather than based on a preconceived notion or prejudice. This approach, invariably, brings the collaborative approach not only in strategy formulation, but also in strategy implementation. This approach also develops a mind-set conducive for efficient management and leadership. In other words diversity nullifies ego-centred and male-dominated situations and encourages soft approach based on soft-skills in directing and leading the people, developing collaborations and team based organizations.

These approaches and developments caused by workforce diversity enable MNCs to solicit unconditional and voluntary co-operation of men and women in implementing various strategies including organizational change efforts. In fact, it is found that the diversified workforce, invite MNCs to bring changes in different areas of the organizations.

**Diversity Repels undesirable Unity among Employees**

Employees used to form into strong trade unions in mono-cultural societies and used to question management's authority in making organizational decisions that affect employees even indirectly. There were numerous instances, where MNCs could not implement their strategies, when they followed polycentric approach, i.e., employing mostly from host country nationals. The current phase of globalization enable MNCs to opt for geocentric/global approach towards recruitment, i.e., employing the best from any country in the world. Workforce diversity caused by geocentric approach, made the employees to build careers based on individual strengths, skills and talents rather than based on the strength provided by trade unions. Therefore, the diversified workforce has no interest in trade unions. Rather, they are interested in helping MNCs in achieving the mutual goals of themselves and their employers.

## Weaknesses of Diversified Workforce

## Notes

Workforce diversity along with strengths brings a few weaknesses. Now, we discuss the weaknesses associated with the diversified workforce.

- **Potential Source of Conflict:** Cultural diversity when poorly managed, can lead to a host of problems, such as higher turnover among newly hired women and minorities, low morale and instances of inter-group conflict.
- **Misunderstandings and Perceptual Differences:** Diversity in workforce mostly results in misunderstanding caused by perceptual differences. Perceptual differences in diversified workforce are mostly due to diversified cultural backgrounds. Inappropriate jokes, gossips, and customer concerning to sex, religion, and ethnic groups do also cause conflict. Further, prejudices towards a particular religion or ethnic group do also cause conflict.
- **Delay in Decision-Making:** cultural differences cause the employees to take more time to understand the view points of others, inner meanings of the view points, cultural association for views and as well as development of alternative solutions. Further, employees express varied views and alternatives based on their backgrounds. Therefore, they take more time in evaluating alternatives and in selecting the best. Thus, the entire decision-making process takes more time in multi-cultural environments compared to mono-cultural environments.
- **Communication Distortions:** workforce diversity results in communication distortions in terms of (i) language due to wide differences in pronunciation, accent and punctuation, (ii) social barriers in terms of the way of understanding in varied social contexts, (iii) psychological barriers as perception and motivational approaches vary from one culture to the other cultures, and (iv) semantic barriers as different cultures use different words in the same context. For example, Indians use the word 'we meet later' and Australians and Papua New Guinea use 'we catch up later' to mean the same thing.

**Implications:** The above analysis clears that workforce diversity provides relatively more and concrete strengths compared to its weaknesses to an organization. Therefore, organizations should manage workforce diversity in such a way that the strengths are enriched and the weaknesses are minimized. Now, we discuss the strategies to manage workforce diversity.

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## 2.5 TYPES AND STRATEGIES OF ORGANIZATION CULTURE

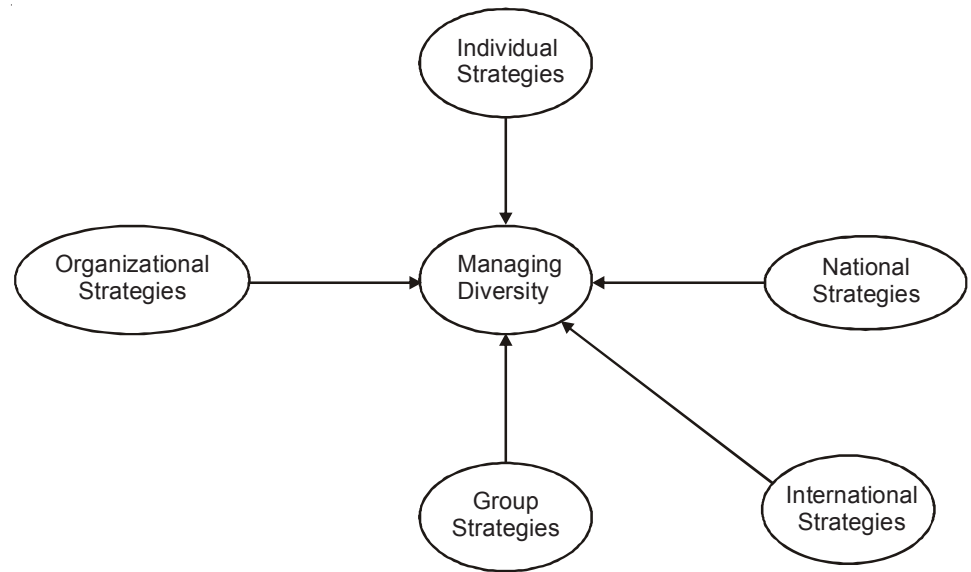
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Strategies for managing workforce diversity or cultural diversity are five-fold as depicted in Fig. 2.5.

### Individual Strategies

Individuals with broad minded approach can formulate strategies based on the situations, ego-state and cultural background of other persons at the workplace in order to manage the diversified cultural situations. Individual strategies to manage cultural diversity are not inclusive. However, we discuss some important strategies. They are:

- Understanding the cultural background of others;
- Belief that all cultures are good;

**Notes**

**Fig. 2.3: Strategies for Managing Workforce Diversity**

- Perceive from other's perspective;
- Approach of 'no-winning-over' other's culture;
- Clear communication.

### **Understanding the Cultural Background of Others**

Individual employees before transacting the business should understand the cultural background of his/her colleagues and/or others. This would enable them to estimate the probable ways of approaching or dealing with others by predicting their behavioural patterns. Thus, understanding others' cultural background, enable the employees to modify or adjust their behaviour in advance and prevent the possible conflicts of cultural diversity.

### **Belief that 'All Cultures are Good'**

Cultures are evolved over a period mostly based on the climatic and economic conditions of a region or a country. However, other environmental factors also played their part in the formation of cultures. Thus cultures in different parts of the world are formed in response to the environmental factors that existed in the region concerned. Therefore, all cultures are basically appropriate and good. Employees should believe that all cultures are appropriate and good, which in turn enable the employees not to have any prejudice over other cultures. Absence of prejudice eliminates stereotype attitude towards others' cultures and thereby minimizes the weakness of cultural diversity and conflicts between/among cultures.

### **Perceive from Others' Perspective**

Perceiving a situation/transaction from the perspective of the other person to the transaction/situation and act accordingly would invariably result in harmony as the transaction ultimately takes place by convincing other person or being convinced by the other person to the situation. This results in collaboration of two minds by showing empathy towards others' cultural values and practices. Thus, perceiving and



understanding others from their perspective leads to collaboration, but mostly not a conflict.

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### Approach of 'No-Wining' over Others' Culture

Individual employees should not adapt the strategy of winning over the other's cultural issues or values. At the same time, one should not try to convince others over their cultures or try to have a 'trade-off' over the cultural issues. Rather, one should adjust himself/herself or adjust the situation or events according to others' cultural, unless the organizational policies/rules/customs are otherwise.

### Clear Communication

Communication is a prime factor in cultural diversity. Speaking about the known and conveying the meaning as viewed by the sender of the communication under the known situations would be difficult in many times. It would be rather difficult to communicate under the 'unknown situations of the culture'. Therefore, individual strategies should concentrate on the language, translation, using appropriate words, pauses, clarifications and detailed explanations/notes while communicating under the situations of cultural diversity. Meta-communication, i.e., 'communication about the approach to communication' is appropriate under cultural diversity. This also helps to understand the communication styles of others and structure the individual employee's communication strategies accordingly.

Now, we discuss the group strategies to cultural diversity.

### Group Strategies to Cultural Diversity

Group of employees belong to the same culture can understand the cultures of other groups and cultural differences between the two groups. They can also formulate appropriate strategies for managing cultural diversity. The group strategies include:

- Knowledge sharing
- Advising and cautioning
- Cultural exchange through socialization programs

### Knowledge Sharing

Expatriates from the same nationality meet, discuss and share the information and knowledge with regard to the culture of the host country nationals as well as cultural of other expatriates from other nationalities. They also share their experiences of cultural conflicts as well as cultural harmony. Exchange and sharing of knowledge greatly help the employees to set their mind and behaviour before hand, in accordance with the culture of the employees/employee groups with whom they transact or interact at the workplace. This would help in prevent the cultural conflicts and cultural shocks and maintain cultural harmony, whereby, expatriates as well as host country nationals can channel their time and efforts towards productive issues. For example, Non-Resident Indians working in different cities in the USA meet quite frequently, exchange their experiences and knowledge about the cultures of various expatriate groups like Chinese, Koreans, Filipinos, Malaysians, Papua New Guineans, Europeans as well as Americans. This enables them to reduce the cultural conflicts with various ethnic groups. Similarly, Papua New Guineans working in Arab countries do also meet and

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share their knowledge and experiences with regard to Arab culture, which is significantly different from that of the Papua New Guinea's culture. This enables them to adjust to the Arab culture and concentrate on work related cultures.

**Advising and Cautioning**

Expatriates of a particular nationality living in a foreign country for a quite long time acquire cultural values and cultural practices of the host country. These experienced expatriates advise the new immigrants from their home country about the cultural expectations in the host country. In addition, they also caution the new immigrants about the possible cultural conflict areas and appropriate strategies that can be used to prevent as well as to solve them. For example, Chinese living in USA as well as in other countries, widely practice this strategy and they continuously caution their new immigrants.

**Cultural Exchange through Socialization Programs**

Expatriate groups of various nationals as well as host country nationals organize informal as well as formal socialization programs. These programs, particularly informal programs over a cup of tea or a dinner encourage the participants to speak about their cultures and listen to the others' cultural practices with an open mind, understand the reasoning behind it, and advantages of those cultural practices. Author had these experiences with his colleagues, who are the nationals of those countries where the author worked. These deliberations, change the mind set of the participants towards others' cultures, alter their preconceived notions, negative beliefs if any, tend to build harmonious cultural climate. Author, he himself organized such programs in various countries he worked as an individual and also as the President of India Association of Papua New Guinea Inc., during 2005-06, witnessed and experienced the creation of harmonious and near uniform work culture.

These programs provide a number of benefits like:

- Understand each other beyond cultural boundaries;
- Prevent the possible cultural conflicts at the workplace;
- Build relationships among employees' family members, which would act as a 'shock absorber' during the periods of cultural or work related conflicts;
- Understand and respecting others' cultures;
- Practice the relevant or interesting areas of others cultures. This practice provides immense satisfaction to others, whose cultural practices are adapted;
- Build near uniform culture at the workplace;
- Prevent cultural conflicts at workplace; and
- These programs act as greasing the hicup areas in cultural understanding.
- Helps to provide a common platform to resolve cultural conflicts, if some of them can't be prevented.

These programs suffer from a few limitations like sparing the time and resources. However, these programs manage the cultural diversity most efficiently, than other strategies.



Now, we discuss organizational strategies.

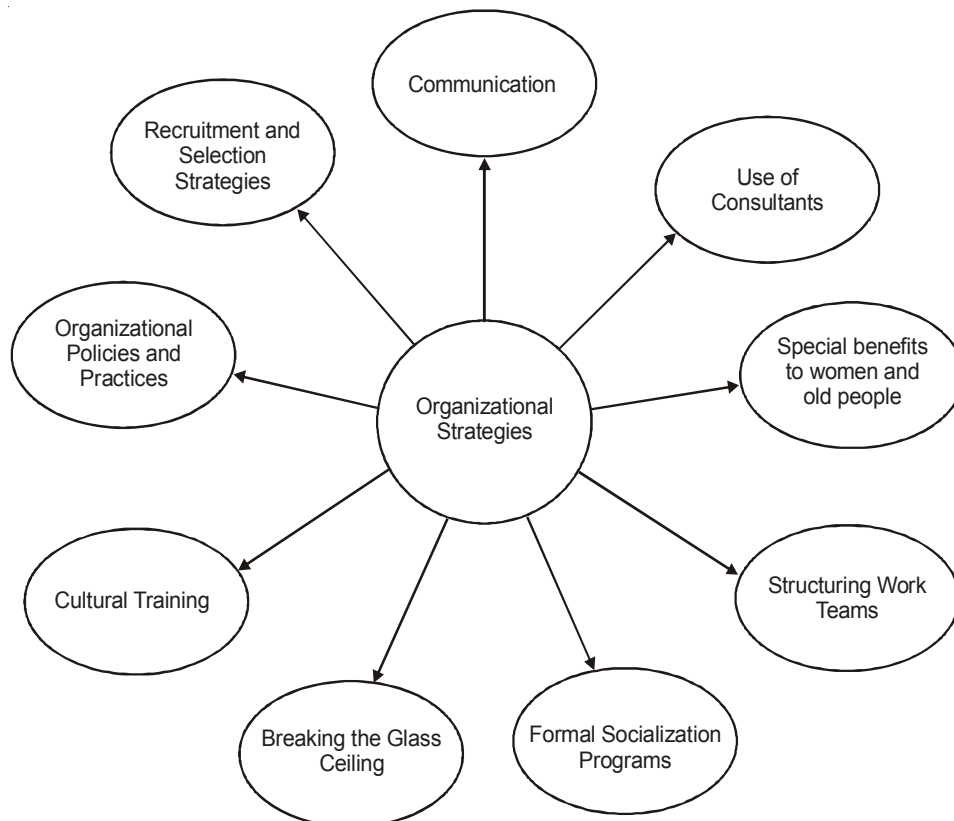
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**Organizational Strategies to Cultural Diversity**

Organizations can formulate effective strategies to manage cultural diversity at the work place, in addition to the strategies adapted by individuals and groups. Organizational strategies include:

- Recruitment and Selection Strategies
- Organizational Policies and Practices
- Cultural Training
- Breaking the Glass Ceilings
- Formal Socialization Programs
- Structuring Work Teams
- Use of Counsellors
- Communication
- Special Benefits and Facilities for Women and Old People

Fig. 2.4 depicts organizational strategies towards the management of cultural diversity.



**Fig. 2.4: Management of Cultural Diversity: Organizational Strategies**

Now, we discuss the contribution of organizational strategies towards harmony in cultural diversity.

**Notes****Recruitment and Selection Strategies**

MNCs adapt different approaches in recruiting the prospective employees, viz., ethnocentric (parent country nationals), polycentric (host country nationals), regiocentric (candidates from the regional countries where the subsidiary is located) and geocentric (from any part of the world). These approaches have their own advantages and disadvantages as discussed in Chapter 6. However, geocentric approach emphasizes on the best talent of the prospective employees, ignoring almost all other aspects including. Therefore, geocentric approach would result in more chances of extreme cultural diversity of employees.

Therefore, organizations should examine the level of quality of human resources required in order to gain competitive advantage over the competitors in the light of extreme cultural diversity that could be resulted due to the geocentric approach. The possible recruitment and selection strategies, if the company prefers geocentric approach for recruiting the employees, would include:

**Country Cluster Strategy:** Organizations study the cultural similarities of various countries or regions within the same country, where the best talent is available and source the prospective employees from those countries/regions within a country which possess greater similarities. Countries can be clustered into one group with at least broader similarities and talent requirement of the human resources. MNCs can source from these countries for example, central European countries, North American countries, and Indian Sub-continent, Philippines, Malaysia and India etc. For example, certain MNCs source their employees from USA and India, while others source from India and Philippines based on the talent level requirement and cultural similarities.

**Selection Tests:** MNCs can concentrate on selection tests, if it would be difficult for them to cluster the countries/regions within a country based on cultural similarities. MNCs should tailor selection tests to examine the attitude towards other countries, and abilities to adapt to cultural diversity of the possible best candidates in terms of talent and select such candidates.

**Employee Referrals:** MNCs can rely on employee referrals for the candidates who are best in terms of talent and cultural fit in the culturally diverse organizational climate. This would be the most effective strategy, as employee referrals provide accurate and reliable information in terms of talent as well as cultural background and characteristics of prospective employees. MNCs in software business like Oracle, Polaris and SAP follow this strategy to get the culturally fit and best talented candidates.

**Organizational Policies and Practices**

Organizations formulate various human resource management policies. The most important one among them is cultural policy. Cultural policies should contain:

- **Recruitment/selection** from different cultures including equal employment opportunities for men and women, different ethnic groups, races, origin of the country and the like.
- **Payment of salary and benefits** are exclusively based on talent and performance, but not on gender, nationality and race. However, if the company

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employs top level managers from one country, middle level managers from another country and lower level managers from other country, there would be potential danger that the employees would perceive that their salaries and benefits are discriminated against the country of origin rather than against job level. For example CPL Limited Procured top management employees from Australia and New Zealand, middle level managers from India and lower level managers from Philippines. The employees from Philippines often complain that the management pays them less and pays more to Indians and Australians. Similar view is also prevalent among certain Indian employees with regard to salaries to Australians. In fact, the company pays according to the job level. But employees have already developed the view that the salary discrimination is based on the country of origin. Management attempted many times to clarify to the employees particularly of Filipinos, but failed to impress upon the Filipino employees. Therefore, it would be advisable to source employees at each level from different countries, in order to prevent this type of salary disparity perceived to be based on culture. MNCs, in order to manage workforce diversity effectively must be sensitive to the needs of the minority and lower level employees and seek to identify and eliminate barriers standing in their way. Exhibit 2.4 presents the Hewlett Packard's diversity management program.

**EXHIBIT 2.4: COMPONENTS OF HEWLETT-PACKARD'S DIVERSITY MANAGEMENT PROGRAM**

<p>Hewlett-Packard conducted an employee attitude survey and found that its minority employees were particularly dissatisfied with the company's style of management, its pay and benefits programs, the work environment and the firm's promotional opportunities. The following steps were taken by the company to resolve these problems:</p>	<p>objectives, which include new hiring policies, new approaches to employee development and efforts to remove artificial barriers to success.</p> <p>(3) It established employee development and mentoring programs to help a broader range of employees move up in the organization.</p> <p>(4) It formed employee support groups, such as the Black Managers' Group to address the needs of specific groups of employees.</p>
<p>(1) It conducted diversity training sessions for all its managers.</p> <p>(2) It informed its managers that they would be held accountable for achieving the firm's diversity</p>	
<p>Source: Caudron S., "Training can Damage Diversity Efforts" Personnel Journal, April 1993, pp.50-62.</p>	

- **Work Distribution:** Distribution of work should also be based on suitability of employees to the jobs rather than culture. But some times it poses a problem as indicated earlier in CPL Limited incident. If MNCs employ candidates for a particular level from a particular country, the criticism that could be leveled in case of salary discrimination, would also be leveled against work distribution. This arises due to the fact that some companies follow flexible approach in job/work description and distribution. However, the cultural background of employee should also be taken into account in determining the match between the employee and the work.
- **Training and Development:** Organizational policies with regard to training and development should include cultural training.
- **Human and Industrial Relations:** Human relations and industrial relations policies should indicate 'equity and fair' relationships across the cultures. It should also emphasize on understanding and respecting others cultures in the process of creation and development of interpersonal relationships.

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Policy implementation should be equal and fair rather than favouring certain cultures and disfavours others. In addition, prejudice over the practices and attitudes should be avoided while implementing the policies. However, practice matters much than the policy. Therefore, management should train all the managers and supervisors who are directly or indirectly connected to the cultural practices at the workplace.

### Cultural Training

MNCs, in addition to job training should also arrange for cultural training. The purpose of the cultural training basically is to manage the cultural diversity in order to maximize its advantages. So cultural training can be viewed from two dimension, viz., (i) educate the employees in others' cultures and (ii) educate and train the employees to reach higher levels in the organization, so that employees belong to certain cultures doing the lower level jobs feel a sense of cultural equality.

- (i) **Educate the employees in others' cultures:** This is the basic cultural training that MNCs should provide in the process of cultural diversity. This training educates the employees to aware of others' cultural values and practices and their implications. Employees who undergo this training would change their mindset towards others' cultures and contribute to the cultural diversity. Exhibit 2.5 provides an example of a diversity training exercise.

#### EXHIBIT 2.5: AN EXAMPLE OF A DIVERSITY TRAINING EXERCISE

<p>Name of Exercise Asset Recognition Training</p> <p>Aim of Exercise Using a diverse group of people to solve a problem can be beneficial because the individual group members view the problem from different perspectives and, thus, can suggest a variety of problem-solving approaches. However, the process can be thwarted when a person's ideas are devalued by other group members because the individual's cultural background is different from their own. Asset recognition training is designed to expose prejudice and hostility toward people who are different and help them recognize that such differences can actually become assets.</p> <p>How Assess Recognition Training is Conducted? The training program consists of the following steps:</p>	<ol style="list-style-type: none"> <li>1. The participants list background experiences regarding such thing as unusual work assignments, games they played as children, hobbies, special interests, and personal goals.</li> <li>2. Participants then share this information with the group.</li> <li>3. Group members then develop a list of special contributions that person can make when the opportunity arises.</li> </ol> <p>Example of How This Training Can Help One group member, an African-American female secretary, revealed that she sang in her church choir. The ensuing group discussion of this activity revealed that this experience improved her breathing, voice control, resonance, clarity of diction, and dramatic expression. The group suggested that these skills could be used on the job to make sales presentations to clients-a total new activity for her. Within a year, she was making such presentations.</p>
<p><i>Source: Shea, G.F. (1992). Learn How to Treasure Differences. HR Magazine, December, 34-37. Quoted in Lawrence S. Kleiman "Human Resource Management", Biztamtra, New Delhi, 2003, p. 44.</i></p>	

- (ii) **MNCs should take up special training programs:** If all employees belong to a particular nation/race/gender/ethnic group are employed at lower level in organizational hierarchy. Otherwise those employees develop a sense of cultural discrimination, rather than realizing the fact that their qualifications could get them only such jobs. The author offered the same suggestion to the CEO of CPL Limited to prevent further cultural problems. The special training programs include providing education to such employees in collaboration with educational institutions, enable them to acquire formal

skills and qualifications necessary for promoting them to higher levels and then promote some of such employees to the higher levels and erase the feeling of cultural disparity in a phased manner. Bunge Australia Pty Ltd., acquired Don Small Goods in 1989 and found that most of the 400 employees were East European origin and 36 per cent were women. All these employees had limited knowledge of English and were doing lower level jobs. Then the company realized the potential cultural threat and arranged for literacy programs during working hours, provided accredited vocational training, encouraged the women to take up new and non-traditional jobs. Employees were promoted on successful completion of training. Employees realized that there has been a significant cultural change with the increased number of women attending training programs and high performers participating in leadership training. These efforts of the company resulted in receiving 'Best Affirmative Active Employer Award' in the small employers' category in 1996 in Australia.

## Notes

### Breaking the Glass Ceiling

As explained earlier, certain categories of employees particularly women and employees belong to minority categories are mostly found in lower level jobs in MNCs. Therefore, MNCs should offer special educational programs with an alliance with educational/training institutions/universities that are relevant for higher level jobs. On successful completion of the respective programs and after acquiring diplomas/degrees, MNCs should promote them to higher level jobs. MNCs should incorporate this issue in their career planning and development programs in order to break the glass ceilings and provide due place to women and minority employees as well as to utilize their skills and talent effectively. Then employees of all categories would derive satisfaction with the cultural diversity management programs as well as feel equal and fair treatment in MNCs. (See Box 2.5).

### Formal Socialization Programs

MNCs organize Socialization Programs in the form of 'outings', Company Annual Days, Achievement Days and special celebrations, wherein cultural events and programs of cultural understanding and exchange are widely organized. Exhibit 2.6 presents steps for creating a diversity-friendly workplace.

### Structuring Work Teams

MNCs structure the work teams by drawing the employees across the functional departments in order to take-up and complete a project or a specific task. MNCs should include employees across the cultures within each functional area in the project teams. This process results in structuring of cross cultural and cross-functional teams. Employees understand and adapt to others' cultures intensively while working in such teams.

### Use of Counsellors

Strategy of counsellors would work efficiently in case of those employees with strong cultural beliefs and prejudice over others' cultures. Counsellors educate and counsel employees case by case.

### Communication

Information sharing, consultation, negotiations, bargaining, networking and working together need effective communication. Face-to-face discussions, and

Notes

**BOX 2.5: WAL-MART FACES HUGE SEX-BIAS CASE**

<p>A US federal judge has given the go-ahead for a sex-discrimination lawsuit against Wal-Mart to become a class action, the plaintiffs' lawyers say.</p> <p>The judge's decision means the case now involves up to 1.6 million women who have worked for Wal-Mart since 1998. It is the biggest civil rights case against a private employer in US legal history, the plaintiffs' lawyers say. Wal-Mart, which is the world's biggest retailer, has not yet made any comment on the legal setback. The original lawsuit was filed in June 2001 by six women who either worked for Wal-Mart or had done so in the past.</p> <p><b>Pay and promotion</b></p> <p>It alleged that Wal-Mart systematically paid women less than men and passed them over for promotion. San Francisco-based judge Martin Jenkins dismissed Wal-Mart's argument that a class action lawsuit would be too unwieldy. "Up till now, Wal-Mart has never faced a trial like this," said Brad Seligman, the lead counsel for the women. "Lawsuits by individual women had no more effect than a pinprick. Now, however, the playing field has been levelled. Wal-Mart will face the combined power of 1.6 million women in court," said Mr Seligman in a statement on the Impact</p>	<p>Fund website, a campaign group backing the women. Judge Jenkins described the lawsuit as "historic in nature" in deciding to certify it as a class action. Wal-Mart has 1.3 million staff and sources goods for its gigantic store chains, Wal-Mart and Sam's Clubs, from 23 countries.</p> <p><b>Fair comparison?</b></p> <p>Wal-Mart had argued that a class action was inappropriate because of its size, and because promotions were decided by local managers. The plaintiffs lawyers opposed this on the grounds that Wal-Mart is a tightly knit and highly regulated company with a strong corporate culture. Its 3,500 US stores are more or less identical, they argued. Wal-Mart has 10 days to ask the US Ninth Circuit Court of Appeals to review Judge Jenkins's decision, the Wall Street Journal reported. If the appeal court upholds the judge's decision to allow a class action, it could still be several months before the hearing begins. "Let's keep in mind that today's ruling has absolutely nothing to do with the merits of the case," the Wall Street Journal quoted Wal-Mart spokeswoman Mona Williams as saying. The class action lawsuit will only apply to women employed by Wal-Mart in the US since 26 December 1998.</p>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

intensive interactions become successful with careful communication. In fact, organizational communication policy should include bottom-up communication, communication and consultation with all cultural groups and communication across ethnic groups, so as to enable employees to share and exchange cultural values and practices of different groups and adapt them towards organizational culture.

**Special Benefits to Women and Old People**

Women, old people and partially and physically disadvantaged people though they broadly belong to the same cultural group, they bring slightly different cultural

**EXHIBIT 2.6: STEPS FOR CREATING A DIVERSITY-FRIENDLY WORKPLACE**

- |                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Make diversity a corporate goal and secure high commitment from all employees.</li> <li>• Hold a "Brown bag lunch" series to talk about cultural diversity issues</li> <li>• Provide employees with opportunities to attend local cultural events and exhibits.</li> <li>• Avoid singling out employees of a particular race or ethnicity to handle</li> </ul> | <ul style="list-style-type: none"> <li>diversity issues on behalf of everyone else.</li> <li>• Start a mentoring program that pairs employees of diverse backgrounds.</li> <li>• Foster an open, friendly work environment.</li> <li>• Establish an internal procedure for employees to report incidents of harassment or discrimination.</li> </ul> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

*Source:* Adapted from Gardenswartz, L., and Rowe, A. (2002). Important steps from implementing diversity training *Mosaics*, 8(3), 3-5. Quoted in Lawrence S. Kleiman, *op.cit.*, p.44.



values and norms in many respects. Therefore, MNCs are expected to provide special benefits and concessions.

MNCs and domestic organizations, in fact have been providing maternity benefits either as a legal requirement or on voluntary basis to women employees. These benefits vary from country to country. The Maternity Benefit Act, 1961 in India provides for 12 weeks paid leave along with medical benefits. However, it is still a voluntary benefit and is in the purview of the collective bargaining items in some countries including Australia.

In addition, women employees should be provided with transportation facilities, particularly, if they need to work during inconvenience hours due to the possible risks which took place in software industry in Bangalore and Pune in India. Other special facilities for women employees under work and family programs include:

- **Telecommuting:** Telecommuting is a non-traditional work arrangement in which employees can work at home and transfer the work via on-line.
- **Flexi-time:** Under flexi-time, working hours are flexible in that workers must work in their stipulated length of working hours say eight hours a day, but can choose their starting and ending time without a disturbance to the supply chain of the work process in the office/factory
- **Job sharing:** full-time job is shared by two people.

Exhibit 2.7 provides examples of work and family programs.

**EXHIBIT 2.7: EXAMPLES OF WORK AND FAMILY PROGRAMS**

<p><b>Los Angeles Department of Water and Power<sup>a</sup></b></p> <ul style="list-style-type: none"> <li>• Reduced-cost child care</li> <li>• Care for mildly ill children</li> <li>• Parenting classes and counselling</li> <li>• Expectant parent program</li> <li>• Parenting support groups</li> <li>• A "Beeper-Albert" program (in which employees are loaned beepers when they have an imminent family emergency).</li> </ul> <p><b>RJR Nabiscob</b></p> <ul style="list-style-type: none"> <li>• Time-off program in which parents can take time off to accompany their children on the first day of school or to attend parent-teacher conferences.</li> </ul>	<p><b>Stride Ritec</b></p> <ul style="list-style-type: none"> <li>• Intergenerational Center-a day-care facility for children and elder dependents of employees.</li> </ul> <p><b>The St. Petersburg Times</b></p> <ul style="list-style-type: none"> <li>• Subsidized child care and care for sick children.</li> <li>• Flexible work schedules.</li> <li>• Family leave.</li> <li>• Job sharing.</li> <li>• Resource and referral services.</li> </ul> <p><b>Eli Lillye</b></p> <ul style="list-style-type: none"> <li>• On-site day-care center</li> <li>• Summer camp for children who are too old for day care.</li> </ul>
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

*Sources:*

- a. Solomon, C.M. (1992). Work/family ideas that break boundaries. Personnel Journal, October, 112-117.
- b. Santora, J.E. (1992). Nabisco tackles tomorrows' skills gap. Personnel Journal, September, 47-50.
- c. Laabs, J.J. (1993). Family issues are a priority at Stride Rite, Personnel Journal, July, 48-56.
- d. Martinez, M.N. (1993). Family support makes business sense. HR Magazine, January, 38-43.
- e. Poe, A.C. (1999). Parenting programs take off. HR Magazine, November, 42-50. Quoted in Lawrence S. Kleiman, *op.cit.*, p 47.

**Notes**

Similarly MNCs meet the distinct needs of old people. Older people are stable in employment, compulsive in behaviour and decision-making and are unlearning old methods and learning new methods. They may be physically weak, but strong mentally. Young workers may find it difficult to direct the older workers in view of age gap. They need continuous medical support. So MNCs should provide continuous medical and health support to old employees.

In addition, MNCs should provide training to older and younger employees to understand each others cultures. In addition, older employees should be provided conducive working facilities, transportation facilities etc., to make them feel more comfortable and productive.

Now, we discuss the national strategies towards management of cultural diversity.

**National Strategies**

National strategies towards management of cultural diversity include:

- Legislative approach towards equal employment opportunities
- Efforts of the cultural associations/societies
- Efforts of the diplomatic missions

**Legislative Approach towards Equal Employment Opportunities**

Various governments enacted laws forcing the companies to employ women and minority employees. Affirmative Action Plans in the USA, Equal Employment Opportunity laws in Australia, Laws relating to employment of candidates belong to minority and disadvantaged communities like scheduled castes, schedule tribes and backward castes and women in India are some of the examples in this regard.

**Efforts of the Cultural Associations/Societies**

Various cultural associations and societies like Indo-American Cultural Society, Indo-Russian Cultural Society in India and Indian Cultural Society in Malaysia, India Association of PNG Inc., Filipino Associations, and Chinese Associations in various countries spared the cultures of their countries in all those countries they operate. Efforts of these societies enable the people in various countries to understand the cultures of their respective countries.

**Efforts of the Diplomatic Missions**

Diplomatic missions like embassies and high commissions of various countries established in foreign countries initiate special efforts to spread the culture of their respective countries in addition to carry-out the cultural values of the foreign countries to their home countries. Thus, the diplomatic missions spread the cultures and enable the process of the culture exchange. These efforts would result in understanding and tolerance of foreign cultures.

Thus, national strategies would play a general and broader role in managing cultural diversity. Now, we discuss international strategies towards the management of cultural diversity.



**International Strategies:** International Strategies towards diversity management include:

- Economic Unions and Regional Integrations
- Efforts of International Trade Organizations and Financial Institution
- Efforts of the MNCs' Headquarters.

**Notes**

### **Economic Unions and Regional Integrations**

Growth of economic unions like European Union and regional integrations like North American Free Trade Agreement and Asia Pacific Economic Co-operation formulate policies for free flow of human resources among the member countries. Free flow of human resources, in turn, results in spread of cultures of member countries within the region. Increased cultural awareness and understanding through cultural spread reduces the problems of cultural conflicts in the organizations.

### **Efforts of International Trade Organizations and Financial Institutions**

International trade organizations and financial institutions like World Trade Organization, International Monetary Fund and World Bank aim at the growth of world economies through a number of efforts including free movement of human resources across the countries. In addition, these institutions conduct training programs in technical skills and cultural aspects, thus contributing to easing the management of cultural diversity.

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## **2.6 SUMMARY**

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- Culture is learnt from the environment and interaction at workplace and social spheres.
- Culture is shared and exchanged between two people or among several people.
- Culture is trans-generational, in the sense that it is transferred from one generation to other generation.
- Culture is adaptive as individuals adapt the cultures of other persons or societies.
- Culture is descriptive as it defines boundaries between groups.
- Culture is made up of assumptions, values, beliefs and attitudes set by the society based on the changing environment.
- Globalization provided an opportunity to business firms to expand geographically by entering into new markets.
- Women and minorities have started entering the global workforce in record numbers but have failed to reach management levels as they entered workforce in recent times and it may take time for them to be promoted to the higher levels in the organizational hierarchy.
- MNCs have to manage cultural diversity due to the advantages of cultural diversity, viz., competitive advantage, multi-ethnic unified societies at workplace, efficient implementation of organizational strategies and repeats undesirable unity among employees.

**Notes**

- Strategies for managing cultural diversity include: individual strategies, organizational strategies, national strategies and international strategies.

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**2.7 KEY TERMS**

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- |                      |                                |
|----------------------|--------------------------------|
| • Culture            | • Society                      |
| • Glass Ceiling      | • Behaviour                    |
| • Women Employees    | • Minorities                   |
| • Managing Diversity | • Cross-cultural Communication |
| • Diversity Training | • Old Employees                |
| • Achievement        | • Individual Strategies        |
| • Advising           | • Cautioning                   |
| • Collectivism       | • Counsellors                  |

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**2.8 REVIEW QUESTIONS**

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1. What is culture? Discuss various factors that contribute to the formation of culture.
2. Why do cultures differ from each other?
3. What is glass-ceiling? Why does it take place for women employees and employees belonging to minority groups?
4. How does globalization contribute and accelerate the free movement of human resources among the countries?
5. What are the strengths and weaknesses of workforce diversity? Why should MNCs manage workforce diversity?
6. Discuss the individual strategies to manage workforce diversity.
7. What are the organizational strategies for managing workforce diversity?
8. What are the national and international strategies for managing workforce diversity?

# 3

Unit

## INTERNATIONAL BUSINESS: AN OVERVIEW

---

### Objectives

This unit focuses on:

- Differentiate between international business and international trade and international marketing;
- Discuss the drivers of globalisation;
- Know why global business is a crucial venture;
- Understand why business firms go global;
- Explain the basis for international business;
- Explain the stages of internationalisation;
- Identify the sources of competitive advantages from international business.

### Structure:

- 3.1 Introduction
- 3.2 International Business and HRM
- 3.3 International Business Approaches
- 3.4 Globalization Approaches
- 3.5 Globalization and the Strategy
- 3.6 Competency Required for International Managers
- 3.7 Summary
- 3.8 Key Terms
- 3.9 Review Questions

**Notes**

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**3.1 INTRODUCTION**

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The beverages you drink might be produced in India, but with the collaboration of a USA company. The tea you drink is prepared from the tea powder produced in Sri Lanka. The spares and hard-disk of the computer you operate might have been produced in the United States of America. The perfume you apply might have been produced in France. The television you watch might have been produced with Japanese technology. The shoes you wear might have been produced in Taiwan, but remarketed by an Italian company. Your air-travel services might have been provided to you by Air-France and so on so forth.

Most of you have the experience of browsing internet and visiting different web sites, knowing the products and services offered by various companies across the globe. Some of you might have the experience of even ordering and buying products through internet. This process gives you an opportunity of transacting in the international business arena without visiting or knowing the various countries and companies across the globe.

You get all these even without visiting or knowing the country of the company where they are produced. All these activities have become a reality due to the operations and activities of international business.

Thus, international business is the process of focusing on the resources of the globe and objectives of the organisations on global business opportunities and threats, in order to produce, buy, sell or exchange of goods/services world-wide.

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**3.2 INTERNATIONAL BUSINESS AND HRM**

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The origin of international business goes back to human civilization. Historically periods of greater openness to trade have been characterized by stronger but lopsided global growth. The concept of international business—a broader concept relating to the integration of economies and societies, dates back to the 19<sup>th</sup> century. The first phase of globalization began around 1870 and ended with the World War I (1919) driven by the industrial revolution in the UK, Germany and the USA. The import of raw materials by colonial empires from their colonies and exporting finished goods to their overseas possessions was the main reason for the sharp increase in the trade during this phase.

The ratio of trade to Gross Domestic Product (GDP) was as high as 22.1 in 1913. Later various Governments initiated and imposed a number of barriers to trade to protect their domestic production that led to decline in the ratio of trade to GDP to 9.1 during 1930s. The international trade between two world wars has been described as “a vast game of beggar-my-neighbour.”

Advanced countries experienced a severe set back consequent upon the imposition of trade barriers as they produced in excess of domestic demand and a decline in the volume of international trade. Added to this, the breakdown of the gold standard resulted in vacuum in the field of international trade. Then the world nations felt the need for international co-operation in global trade and balance of payments affairs. These efforts resulted in the establishment of the International Monetary Fund

(IMF) and the International Bank for Reconstruction and Development (IBRD—popularly known as the World Bank).

The prolonged recession before the World War II in the West, led to an international consensus after the World War II that a different approach towards international trade was required. Consequently, 23 countries conducted negotiations in 1947 in order to prevent the protectionist policies and to revive the economies from recession aiming at the establishment of an International Trade Organization. This attempt of the advanced countries ended with the General Agreement on Trade and Tariffs (GATT) that provided a framework for a series of 'rounds' of negotiations by which tariffs were reduced. Efforts to convert the General Agreement on Trade and Tariffs (GATT) into World Trade Organization (WTO) were intensified during 1980s and ultimately GATT was replaced by the WTO on 1<sup>st</sup> January 1995, envisaging trade liberalization. The efforts of IMF, World Bank and WTO along with the efforts of individual countries due to economic limitations of the closed economies led to the globalization of business. Globalization gave fillip to international business particularly during 1990s.

In fact, the term international business was not popular before two decades. The term international business has emerged from the term 'international marketing', which, in turn, emerged from the term 'international trade.'

**International Trade to International Marketing:** Originally, the producers used to export their products to the nearby countries and gradually extended the exports to far-off countries. Gradually, the companies extended the operations beyond trade. *For example*, India used to export raw cotton, raw jute and iron ore during the early 1900s. The massive industrialisation in the country enabled us to export jute products, cotton garments and steel during 1960s.

India, during 1980s could create markets for its products, in addition to mere exporting. The export marketing efforts include creation of demand for Indian products like textiles, electronics, leather products, tea, coffee etc., arranging for appropriate distribution channels, attractive packaging, product development, pricing etc. This process is true not only with India, but also with almost all developed and developing economies.

**International Marketing to International Business:** The multinational companies which were producing the products in their home countries and marketing them in various foreign countries before 1980s, started locating their plants and other manufacturing facilities in foreign/host countries. Later, they started producing in one foreign country and marketing in other foreign countries. *For example*, Uni Lever established its subsidiary company in India, *i.e.*, Hindustan Lever Limited (HLL). HLL produces its products in India and markets them in Bangladesh, Sri Lanka, Nepal etc. Thus, the scope of international trade is expanded into international marketing and international marketing expanded into international business.

The 1990s and the new millennium clearly indicate rapid internationalisation and globalisation. The entire globe is passing at a dramatic pace through the transition period. Today, the international trader is in a position to analyse and interpret the global, social, technical, economic, political and natural environmental factors more clearly. Fig. 3.1 presents international business model consisting influencing environmental factors, stages, approaches, and modes of entry, goals of and advantages of international business.

## Notes

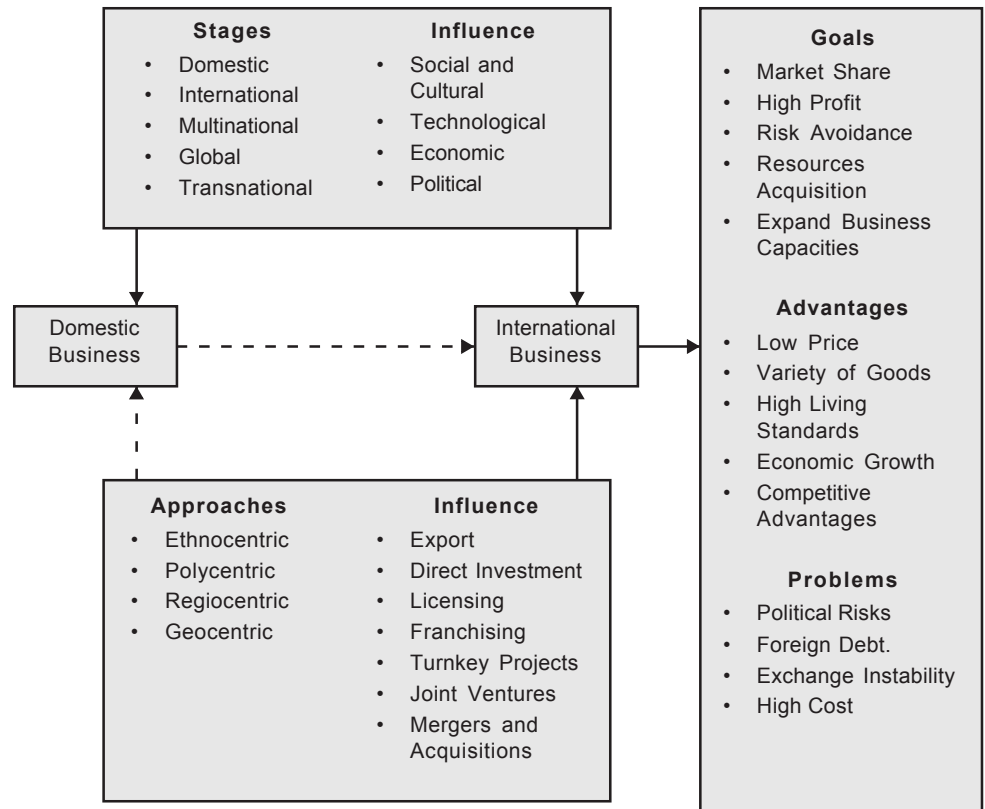


Fig 3.1

### 3.3 International Business Approaches

International business approaches are similar to the stages of internationalisation or globalisation. Douglas Wind and Pelmutter advocated four approaches of international business. They are:

- (1) Ethnocentric Approach
- (2) Polycentric Approach
- (3) Regiocentric Approach
- (4) Geocentric Approach.

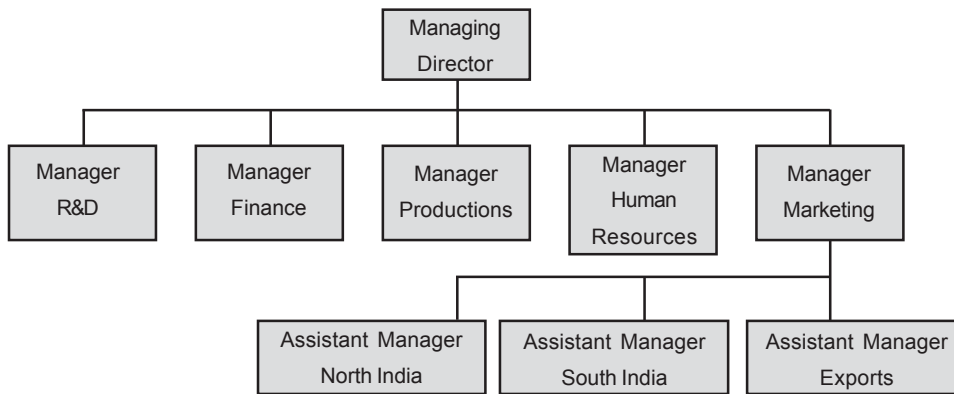
#### 1. Ethnocentric Approach

The domestic companies normally formulate their strategies, their product design and their operations towards the national markets, customers and competitors. But, the excessive production more than the demand for the product, either due to competition or due to changes in customer preferences push the company to export the excessive production to foreign countries. The domestic company continues the exports to the foreign countries and views the foreign markets as an extension to the domestic markets just like a new region. The executives at the head office of the company make the decisions relating to exports and, the marketing personnel of the domestic company monitor the export operations with the help of an export department.

The company exports the same product designed for domestic markets to foreign countries under this approach. Thus, maintenance of domestic approach towards

international business is called ethnocentric approach. Fig. 3.2 makes the ethnocentric concept clearer.

**Notes**

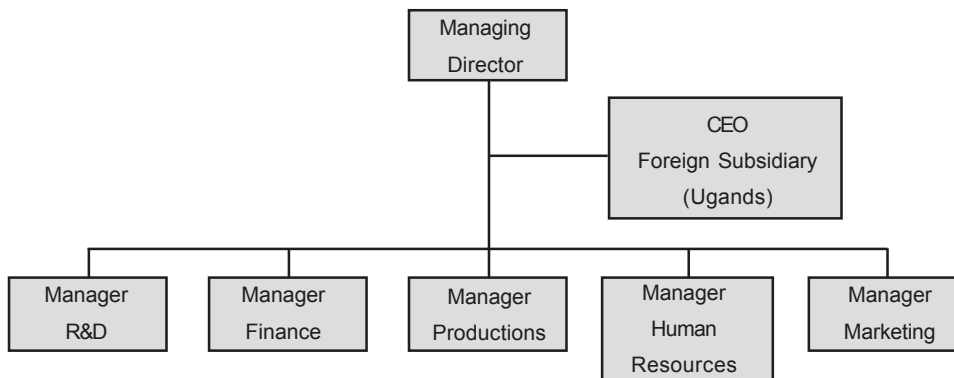


**Fig. 3.2: Organisation Structure of Ethnocentric Company**

This approach is suitable to the companies during the early days of internationalisation and also to the smaller companies.

**2. Polycentric Approach**

The domestic companies which are exporting to foreign countries using the ethnocentric approach find at the later stage that the foreign markets need an altogether different approach. (See Fig. 3.3).



**Fig. 3.3: Organisation Structure of Polycentric Company**

Then, the company establishes a foreign subsidiary company and decentralises all the operations and delegates decision-making and policy making authority to its executives. In fact, the company appoints executives and personnel including a chief executive who reports directly to the Managing Director of the company. Company appoints the key personnel from the home country and all other vacancies are filled by the people of the host country.

The executives of the subsidiary formulate the policies and strategies, design the product based on the host country's environment (*culture, customs, laws, government policies etc.*) and the preferences of the local customers. Thus, the polycentric approach mostly focuses on the conditions of the host country in policy formulation, strategy implementation and operations.

## Notes

## 3. Regiocentric Approach

The company after operating successfully in a foreign country, thinks of exporting to the neighbouring countries of the host country. At this stage, the foreign subsidiary considers the regional environment (*for example, Asian environment like laws, culture, policies etc.*) for formulating policies and strategies. However, it markets more or less the same product designed under polycentric approach in other countries of the region, but with different market strategies. (See Fig. 3.4).

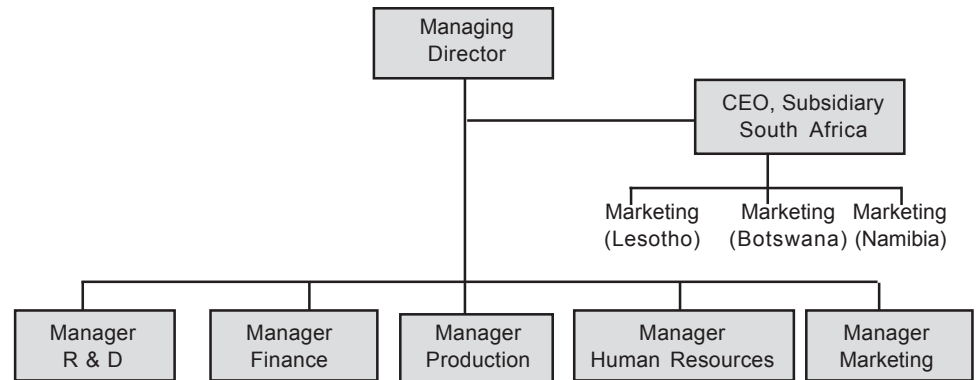


Fig. 3.4: Organisation Structure of Regiocentric Company

## 4. Geocentric Approach

Under this approach, the entire world is just like a single country for the company. They select the employees from the entire globe and operate with a number of subsidiaries. The headquarters coordinate the activities of the subsidiaries. Each subsidiary functions like an independent and autonomous company in formulating policies, strategies, product design, human resource policies, operations etc.

Fig. 3.5 helps to understand the concept of geocentric approach clearly.

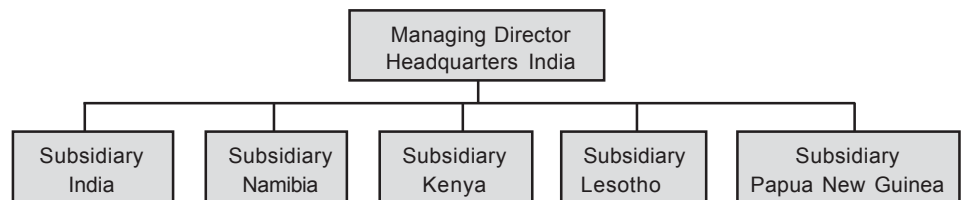


Fig. 3.5: Organisation Structure of Geocentric Company

When a domestic company plans to engage in international business, the company has to select the mode of entry into the foreign country based on all relevant factors like the size of business, influence of environmental factors, attractiveness of the foreign market, market potential costs and benefits and risk factors.

- Different modes of entry to foreign markets include:
- Direct Exporting
- Indirect Exporting
- Licensing arrangements with foreign companies
- Franchising arrangements with foreign companies
- Contract manufacturing
- Management contracts



- Turn Key projects
- Direct Investment
- Joint Ventures
- Mergers and Acquisitions

**Notes**

These aspects are discussed in detail in Chapter 2 on 'Modes of Entering International Business'.

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### 3.4 GLOBALIZATION APPROACHES

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Various economies including the former communist and socialist countries opened their economies to the rest of the globe. The shifts in globalization and international business have been at a fast rate after 1990s. The external environmental factors have been contributing significantly for the remarkable strides in global business. The drivers of globalization/factors contributing to the globalisation include establishment of WTO, emergence and growth of regional integration, decline in trade barriers, decline in investment barriers, increase in FDI, technological changes and growth of multinational corporations (MNCs).

**Establishment of World Trade Organisation:** Governments of the member countries of General Agreement on Trade and Tariff (GATT) concluded the Uruguay round negotiations on the 15<sup>th</sup> December, 1994. The Ministers expressed their political support to the outcome of the meeting by signing the Final Act in Marrakesh, Morocco on the 15<sup>th</sup> April 1994. According to the Marrakesh declaration, the results of the Uruguay round would, "strengthen the world economy and lead to more trade, investment, employment and income growth throughout the world." The World Trade Organisation was established with effect from 1<sup>st</sup> January 1995 in order to facilitate the implementation, administration and operation and further the objectives of this agreement and on the Multinational Trade Agreements and shall also provide the framework for implementation, administration and operation of the plurilateral Trade Agreements.

The value of exports increased by 245% and import increased by 1014% after the establishment of WTO, i.e., during 1995 and 2006.

#### Regional Integration

The regional integration of the countries of the same region or areas increases the size of market, aggregate demand for products and services, quantity of production, employment and ultimately the economic activity of the region. Further, the people of the region get a variety of products at comparatively lower prices. This factor, in turn, enhances the purchasing power and living standards of the people. The significant regional integrations include European Union, NAFTA, ASEAN, SAARC, EFTA, APEC, MERCOSUR and ANDEAN. These regional integrations are also known as trade blocks.

#### Declining Trade Barriers

Another significant driver of globalization is the declining trade barriers. International trade occurs when the goods flow across the countries. Governments used to impose trade barriers like quotas and tariffs in order to protect domestic

**Notes**

business from the competition of international business. Advanced countries after World War II agreed to reduce tariffs in order to encourage free flow of goods. The member countries of the General Agreement on Trade and Tariff (GATT) in various rounds of negotiations agreed to reduce the tariff rates. The Uruguay round of negotiations contributed to further reduction of trade barriers and extension of GATT to cover manufactured goods and services. Consequently, the USA reduced the rate of tariffs from 44% in 1913 to 14% in 1950 to 4.8% in 1990 and further to 3.9% in 2000. Similarly, Japan reduced the rate of tariff from 30% in 1913 to 5.3% in 1990 and to 3.9% in 2000. Thus, most of the advanced countries reduced the tariff rates to 3.9% in 2000. The growth of international trade between 1950 and 2007 was about 28-fold. These reductions in tariff and other trade barriers contributed for the growth of global trade.

**Declining Investment Barriers**

Global business firms invest capital in order to establish manufacturing and other facilities in foreign countries. Foreign governments impose barriers on foreign investment in order to protect domestic industry. But various countries have been removing these barriers on foreign direct investment in order to encourage the growth of global business. Various governments made 1,238 changes in the laws governing foreign direct investment between 1991 and 2007. Out of these amendments, 95% were in favour of foreign direct investment. In addition, bilateral treaties increased from 181 as of 1980 to 1,856 as of 2000 among 160 countries. These treaties, which were designed to promote and protect investment among countries, enabled the fast growth of globalisation of not only trade, but also production. Consequently, the global production increased by 9-fold between 1950 and 2007.

**Growth in Foreign Direct Investment**

The investment made by a company in new manufacturing and/or marketing facilities in a foreign country is referred to as 'Foreign Direct Investment' (FDI). There are a number of reasons for the growth of FDI in recent years. These reasons include: increase in sales and profits, enter into rapidly growing markets, reduce costs, consolidate trade blocs, protect domestic markets, protect foreign markets, acquire technological and managerial know-how.

FDI flows have increased dramatically during the last 25 years, with a rapid growth during 1990s. The outflow of FDI was more than 15 times after 1990s compared to that during 1970s. It increased from US\$ 564 billion in 1980 to US\$ 8,981 billion in 2007. The flow of FDI is expected to increase further once the world economy picks-up from its recent recession in advanced countries.

"Advanced countries were the major players in the flow of FDI. They were the predominant providers and recipients of FDI as 84% of FDI was provided by advanced countries and they received 69% of the FDI in 2007. It indicated that developing countries provided only 16% of total FDI and received 31% of total global FDI in 2002. The USA was the largest provider as well as recipient of FDI followed by the UK in 2007."

Emerging economies received high FDI during 1990 to 2007 than what they received in 1980s. But recession after October 2008 slow down the flow of FDI. However,

a few countries like China, Hong Kong, Brazil, Mexico, India and Singapore are receiving over 50% of FDI among developing countries. Growth and spread of FDI, enlarged the globalization of production and marketing.

## Notes

### Strides in Technology

Technological change is amazing and phenomenal after 1980s. In fact, it is like a revolution in case of telecommunication, information technology and transportation technology. Companies spread latest technology throughout the globe and technology itself makes the global company possible and fastens the process of globalisation. In addition, the latest developments in information technology have enabled the global company to develop into a virtual global company.

**Microprocessors and Telecommunications:** The development of microprocessors paved the way for the growth of high-power, superior-speed low cost computing and handling vast amount of information. These have been revolutionary changes in global telecommunications consequent upon the developments in microprocessors. The development in microprocessors and telecommunications improved the speed and efficiency of co-ordinating the operations of global business firms.

**The Internet and World Wide Web:** The internet and world wide web will be the backbone of future global business. The activities of the global companies across the globe are co-ordinated, monitored and controlled with the help of Internet. The various facilities of the Internet and World Wide Web like e-mail; voice mail, data, and real-time video communications such as video conferencing enable the global business companies to operate efficiently. For example, the executives of a new automobile company in India can visit the home page of the Japanese and US automobile companies by using www search engine and download information on product designs, specifications, models, price, service to the customers, market information etc. This new Indian automobile company can make use of the information in designing its cars and pricing them. Similarly people across the globe speak to each other at the lowest cost using yahoo voice mail, skype, msn voice messenger etc.

**On-line Globalisation:** The companies with manufacturing facilities throughout the globe can send information regarding changes in raw material, customer preferences, changes in product designs etc., through the internet all over the globe. Even the customer enquiries and complaints can be received and redressed through Internet.

Thus, the information technology enabled the globalisation process at a faster rate with more efficiency at low cost.

**Transportation Technology:** The significant development in transportation technology reduced the distance among the countries drastically. The important developments in the transport technology include: commercial jet aircraft, super fighters, containers etc. These developments made the transshipment from one mode to another easy and reduced the travel time from one country to another drastically.

**Notes****Growth of Multinational Companies**

A multinational corporation/company (MNC) is an organisation doing business in more than one country. Transnational company produces, markets, invests and operates across the world. MNCs and transnational corporations (TNCs) have been growing and spreading their operations due to market, financial and other superiorities and the expansion of international markets.

The European Union had 163 out of 500 top MNCs in the world in 2007 followed by USA (162) and Japan (67). Developing countries had around 53 MNCs among the top 500 MNCs in the world in 2007. In fact, MNCs of developing countries have been increasing in contrast to that of developed countries. India had six MNCs among the top 500 MNCs.

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**3.5 GLOBALIZATION AND THE STRATEGY**

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The current phase of globalization, aim at the growth and development of world economies in a balanced way in order to liaise the employment opportunities and living standards of the world population. Therefore, MNCs started locating their manufacturing and business centres in various potential markets in developing countries like China, India, Malaysia and Brazil in addition to strengthening their operations in advanced countries. These efforts of MNCs, challenged the domestic companies and therefore, the potential domestic companies turned into MNCs and spread their operations beyond the boundaries. Thus, the industrial and business activities are expanded to various countries.

Globalization, therefore, further aim at free flow of all kinds of resources across the countries in order to meet the needs of the manufacturing centres established in the new locations. Consequently, money, material, machines and men picked up the mobility at higher speed. Consequently, people across the countries shifted to the new places based on demand for skills. This resulted in diversity of workforce and diversity of cultures at the workplace. As discussed earlier, MNCs prefer to recruit the candidates based on geocentric/global approach rather than home country nationals or host country nationals in view of the need for the best talent consequent upon competition. This approach further added to the magnitude of diversity of workforce in MNCs. Thus, diversity in organizations brings both strengths as well as weaknesses. The approaches to diversity in organizations are presented in Table 3.1.

**Re-employing the Ageing Population**

Ageing population has been on increase in many advanced countries as well as in developing countries where the advanced health and medical facilities are available. In addition, the baby-boom generation (people born in the 20 year period after World War II) in some countries like the USA, the UK, and Australia continues to age. Further, globalization and dynamism in job structures changed the mind set of most of the aged people and made them psychologically and mentally young. Thus, the concept of mental age has emerged.

MNCs and even some of the governments started employing the physically aged, but mentally and psychologically young people as they also fit to the job like young people. Providing employment to aged people is also gained momentum

**TABLE 3.1:**  
**APPROACHES TO DIVERSITY IN ORGANIZATIONS**

Notes

Perception on diversity	Accompanying attitude to diversity	Training implications	Organizational implications
<b>Diversity Blindness</b>	Neutral: "Diversity is not an issue"	Organizational training needs don't contain diversity training needs	No organized efforts to discussing the opportunities and problems of diversity.
<b>Diversity Hostility</b>	Negative: "Diversity is bad"	Promotion of "sameness" in training interventions and "homogenize" the workforce	Horizontal and vertical job segregation and discrimination.
<b>Diversity Naiveté</b>	Positive: "Diversity is good"	One sided "romantic" training interventions focusing on "celebrating or welcoming diversity"	Unsubscribers to espoused position on diversity may be damaged. Can lead to unrealistic expectations from diverse groups.
<b>Diversity Integration</b>	Realistic and functional: "Diversity does not automatically lead to positive or negative outcomes, but needs to be managed and integrated"	Active training for diverse groups in diversity management including the opportunities and problems of diversity.	Minority groups in organizations will be networked and mentored. Facilities and conveniences like flexible working conditions, childcare arrangements, and ergonomic adjustments for disabled employees are provided.

*Source: Adapted from Moore (1999), p.212*

because, the older perception that 'older people are associated with loss of memory and diminished intelligence' has been ruled out. MNCs also realized that they can't afford to force the productive people to leave the work. This new practice, further added to the diversity of workforce.

**Implications:** The diversified workforce in terms of origin of the country, ethnic group, race, age and gender bring not only best talents, but also diversified cultures in terms of communication, motivation, achievement, respecting organizational procedures, power distance, individualism versus collectivism, masculinity, ethnics, morals and work norms.

### **Influences of International Business**

Conducting and managing international business operations is a crucial venture due to variations in political, social, cultural and economic factors, from one country to another country. *For example*, most of the African consumers prefer less costly products due to their poor economic conditions, whereas the German consumers prefer high quality and high priced products due to their higher ability to buy. Therefore, international businessman should produce and export less costly products to most

**Notes**

of the African countries and *vice versa* to most of the European and North American countries. High priced and high quality Palmolive soaps are marketed in European countries and the economy priced Palmolive soaps are exported and marketed in developing countries like Ethiopia, Pakistan, Kenya, India, Cambodia etc. Characteristic features of international business include:

- **Accurate Information:** International business houses need accurate information to make an appropriate decision. Europe was the most opportunistic market for leather goods and particularly for shoes. Bata, based on the accurate data, could make appropriate decisions to enter various European countries.
- **Timely Information:** International business houses need not only accurate but timely information. Coca-Cola could enter the European market based on the timely information, whereas Pepsi entered later. Another example is the timely entrance of Indian software companies into the US market compared to those of other countries. Indian software companies also made timely decision in the case of Europe.
- **Size of the Business:** The size of the international business should be large in order to have an impact on the foreign economies. Most of the multinational companies are significantly large in size. In fact, the capital of some of the MNCs is greater than our annual budget and GDPs of the some of the African countries.
- **Market Segmentation:** Most of the international business houses segment their markets based on the geographic market segmentation. Daewoo segmented its market as North America, Europe, Africa, Indian sub-continent and Pacific markets.

**Potentiality of Markets**

International markets present more potentials than the domestic markets. This is due to the fact that international markets are wide in scope, varied in consumer tastes, preferences and purchasing abilities, size of the population etc. *For example*, the IBM's sales are more in foreign countries than in the USA. Similarly, Coca-Cola's sales, Procter and Gamble's sales and Satyam Computer's sales are more in foreign countries than in their respective home countries.

*The population for the year 2007 indicates that: The USA's population is estimated at 303 million, Mexico's 108 million, Brazil's 190 million, Indonesia's 234 million, Pakistan's 164 million, Nigeria's 135 million, Bangladesh's 150 million, Papua New Guinea 6 million and India.'*

The size of the population, sometimes, may not determine the size of the market. This is due to the backwardness of the economy and low purchasing power of the people. In fact, the size of Eritrea — an African country is roughly equal to that of the United Kingdom in terms of land area and size of the population. But, in terms of per capita income it is one of the poorest countries in the world with an estimated per capita income of US \$ 150 per annum.

Therefore, international business houses should consider the consumers' willingness to buy and also ability to buy the products.



**Notes**

In fact, most of the multinational companies, which entered the Indian market after 1991, failed in this respect. They viewed that almost the entire Indian population would be the customers. Therefore, they estimated that the demand for consumer durable goods would be increasing in India after globalization. And they entered the Indian market. The heavy inflow of these goods and decline in the size of Indian middle class resulted in a slump in the demand for consumer durable goods.

Therefore, the international business houses should accurately estimate the size of the customers who are willing and able to buy the products/services rather than just the size of the population of the foreign countries.

- **Wider Scope:** Foreign trade refers to the flow of goods across national political borders. Therefore, it refers to exporting and importing by international marketing companies plus creation of demand, promotion, pricing etc. As stated earlier, international business is much broader in its scope. It involves international marketing, international investments, management of foreign exchange, procuring international finance from IMF, IBRD, IFC, IDA etc., management of international human resources, management of cultural diversity, management of international production and logistics, international strategic management and the like. Thus, international business is broader in scope and covers all aspects of the system.
- **Inter-country Comparative Study:** International business studies the business opportunities, threats, consumers' preferences, behaviour, cultures of the societies, employees, business environmental factors, manufacturing locations, management styles, inputs and human resource management practices in various countries. International business seeks to identify, classify and interpret the similarities and dissimilarities among the systems used to anticipate demand and market products. The system presents inter-country comparison and inter-continental comparison. Comparative analysis helps the management to evaluate the markets, finances, human resources, consumers etc., of various countries. The comparative study also helps the management to evaluate the market potentials of various countries.

The study also indicates the degree of consumer acceptance of the product, product changes and developments in different countries. Managements of international business houses can group the countries with similar features and design the same products, fix similar price and formulate the same marketing strategies. *For example*, Prentice-Hall grouped India, Nepal, Pakistan, Bangladesh, Sri Lanka etc., into one category based on the customers' ability to pay and designed the same quality product and sold them at the same price in all these countries. *Similarly*, Dr. Reddy's Lab does the same for its products to sell in the African countries.

**Differences in Government Policies, Laws and Regulations**

Sovereign governments enact and implement the laws, and formulate and implement policies and regulations. The international business houses should follow these laws, policies and regulations. MNCs operating in India follow our labour laws, business laws and policies and regulations formulated by the Indian Government. *For example*, international business is required to enter into joint venture with the domestic company to enter Malaysia. Important among them include:

- **Host Country's Monetary System:** Countries regulate the price level, flow of money, production levels etc. through their monetary systems. In addition,

**Notes**

they regulate foreign exchange rates also through the monetary system. The tools of monetary system include bank rate, cash reserve ratio, statutory liquidity ratio etc. Governments also regulate remittance of the profit of international business houses to other countries. International companies should obey these regulations. The Indian Government introduced full convertibility on current account; in fact, many Governments introduced full convertibility on current account as a part of economic liberalisation.

- **National Security Policies of the Host Countries:** Every country formulates the policies for its national security. Multinational companies should abide by these national security policies. *For example*, the USA is a free economy as far as carrying out the business compared to many other countries in the world. However, the USA also imposes restrictions regarding business operations, which affect the national security.

**BOX 3.1: EATING HABITS IN ITALY AND POLAND**

Eating is inseparable element of life. But in many countries it's something more than just appeasing energetic demands.

It's the people in Poland who have 3 meals a day, eat a lot of meat, fat, potatoes (like Germans) etc. But in comparison with Mediterranean regions, eating habits and kitchens are totally different in Poland.

Italy is from a point of view of climate condition and nature, a typical Mediterranean country. In the morning Italians use to eat nothing or have light meal that consists of biscuit, milk, juice etc. In the afternoon they eat pasta, beef

with some vegetables and drink some white wine.

There is a difference between meal time tables in Poland and Italy. Italians are used to eat during the night. In al fresco restaurants, situated usually close to the sea, eating is a way of spending time with friends and family. Kitchen in Italy is an element of culture. The most famous Italian dishes are pizza – a masterpiece from oven, and pasta – the symbol of Italy.

In Poland, now-a-days eating became just a routine. Italians are still cultivating their tradition in day-by-day meals.

- **Cultural Factors:** Cultural and custom factors vary widely from one country to the another. These factors include dressing habits, eating habits, religious factors and the like. Multinational companies should consider these factors of the host country while operating in that country. *For example*, the culture of the Fiji people is that they attend to the family activities at least three times a day. Therefore, the companies operating in that country allow their workers to go home three times a day. (See Boxes 3.1 and 3.2)

**BOX 3.2: IMPACT OF CULTURE OF SWITZERLAND HOUSEWIVES ON MARKETING OF DISHWASHERS**

In Switzerland, foreign dishwasher manufacturers expected the same rapid sales as they had first obtained in other West European markets; but sales in Switzerland were so slow that research had to be done to find out why (this research should, of course, have been done before, not after market entry). The research showed that the Swiss housewife had a different set of values compared to her French and English counterparts; she was very conscious of her role as strict and hardworking and her responsibility for the health of her

family. To the Swiss housewife, dishwashers simply made life easy, and this conflicted with her Calvinistic work ethic. As a result of this research, dishwasher manufacturers had to change their advertising — promoting, instead of ease and convenience, hygiene and health. They did this by emphasising that because dishwashers used temperature higher than hand-hot, the process was more hygienic than washing up by hand. Thereafter, they had no problem selling automatic dishwashers in Switzerland.

*Source:* Edgar P. Hibbert, "International Business", Macmillan, p. 70.



**Notes**

- **Language:** Language is an important factor in international business. Even though 'English language' is a major language in business operations in the world, there are still a large number of 'non-English' speaking countries. Therefore, international business houses should train their employees in the local language of the host country. Added to this, there would be many languages in use in many countries like ours. Therefore, the business houses should train their employees in the local languages also.
- **Nationalism and Business Policy:** Nationalism is a dominating factor of the social life of the people of the host countries. In fact, nationalism also affects the business operations of the multinational corporations dramatically and drastically. The US people used the slogan, '*Be American and Buy American Made*', when the US automobile industry failed to meet the competition of Japanese automobile companies operating in the USA. Similar incidents are also observed in developing countries. Therefore, international business houses should be cautious of nationalism and its after effects.

**Changing Scenario of International Business**

The scenario of international business has been changing at a fast rate after 1990s. Many factors contributed to the changing scenario of international business. These factors include:

- Globalization of various economies including the former communist countries and socialist pattern of societies,
- Establishment of World Trade Organization on the 1<sup>st</sup> January 1995 in place of the General Agreements on Trade and Tariffs,
- Information technology revolution and its wider applications to business across the globe,
- Higher growth rate of transport technology and consequent reduction in cost, increase in speed and efficiency,
- Enlargement of European Union from 15 members to 27 members.
- Higher growth rate of GDP of China, India, South Korea, Singapore, Malaysia, Thailand, Brazil and Mexico,
- Spread of production activities of multinational companies in the newly globalised economies in addition to the developed economies,
- Increase in business alliances in degree and variety like alliances, joint ventures, mergers, amalgamations and takeovers,
- Increased globalisation of culture,
- Increase in educational opportunities and career-orientation among the people of developing countries particularly China and India. These factors resulted in enhancement of opportunities for higher value addition in developing countries. Consequently developing countries started attracting multinational companies to establish their manufacturing facilities in their countries.

**Stages of Internationalisation**

The above stated factors contributed for the significant change in the scenario of international business and resulted in the variations in the operations of international companies. These variations in the scenarios generally categorized into five stages

**Notes**

viz., domestic company, international company, multinational company, global company and transnational company. Now, we study each scenario in detail.

**Stage - 1: Domestic Company**

Domestic company limits its operations, mission and vision to the national political boundaries. This company focuses its view on the domestic market opportunities, domestic suppliers, domestic financial companies, domestic customers etc.

These companies analyse the national environment of the country concerned, formulate the strategies to exploit the opportunities offered by the environment. The domestic companies' unstated motto is that, *"if it is not happening in the home country, it is not happening."*

The domestic company never thinks of growing globally. If it grows, beyond its present capacity, the company selects the diversification strategy of entering into new domestic markets, new products, technology etc. The domestic company does not select the strategy of expansion/penetrating into the international markets.

**Stage - 2: International Company**

Some of the domestic companies, which grow beyond their production and/or domestic marketing capacities, think of internationalizing their operations. Those companies who decide to exploit the opportunities outside the domestic country are the stage two companies. These companies remain ethnocentric or domestic country oriented. These companies believe that the practices adopted in domestic business, the people and products of domestic business are superior to those of other countries. The focus of these companies is domestic but extends the wings to the foreign countries.

These companies select the strategy of locating a branch in the foreign markets and extend the same domestic operations into foreign markets. In other words, these companies extend the domestic product, domestic price, promotion and other business practices to the foreign markets.

Normally internationalisation process of most of the global companies starts with this stage two process. Most of the companies follow this strategy due to limited resources and also to learn from the foreign markets gradually before becoming a global company without much risk.

The international company holds the marketing mix constantly and extends the operations to new countries. Thus, the international company extends the domestic country marketing mix and business model and practices to foreign countries.

**Stage - 3: Multinational Company**

Sooner or later, the international companies learn that the extension strategy (*i.e.*, extending the domestic product, price and promotion to foreign markets) will not work. The best example is that Toyota exported Toyopet cars produced for Japan in Japan to the USA in 1957. Toyopet was not successful in the USA. Toyota could not sell these cars in the USA as they were over priced, underpowered and built like tanks. Thus, these cars were not suitable for the US markets. The unsold cars were shipped back to Japan.

Toyota took this failure as a rich learning experience and as a source of invaluable intelligence but not as failure. Toyota based on this experience designed new models of cars suitable for the US market. The international companies turn into multinational companies when they start responding to the specific needs of the different country markets regarding product, price and promotion.

This stage of multinational company is also referred to as *multidomestic*. Multidomestic company formulates different strategies for different markets; thus, the orientation shifts from *ethnocentric* to *polycentric*. Under polycentric orientation, the offices/branches/subsidiaries of a multinational company work like domestic company in each country where they operate with distinct policies and strategies suitable to the country concerned. Thus, they operate like a domestic company of the country concerned in each of their markets.

Philips of Netherlands was a multidomestic company of this stage during 1960s. It used to have autonomous national organisations and formulate the strategies separately for each country. Its strategy did work effectively until the Japanese companies and Matsushita started competing with this company based on global strategy. Global strategy was based on focusing the company resources to serve the world market.

Philips strategy was to work like a domestic company, and produce a number of models of the product. Consequently, it increased the cost of production and price of the product. But the Matsushita's strategy was to give the value, quality, design and low price to the customer. Philips lost its market share as Matsushita offered more value to the customer.

Consequently, Philips changed its strategy and created "industry main groups" in Netherlands which are responsible for formulating a global strategy for producing, marketing and R & D.

#### **Stage - 4: Global Company**

A global company is the one, which has either global marketing strategy or a global strategy. Global company either produces in home country or in a single country and focuses on marketing these products globally, or produces the products globally and focuses on marketing these products domestically.

Harley designs and produces super heavy weight motorcycles in the USA and markets in the global market. Similarly, Dr. Reddy's Lab designs and produces drugs in India and markets globally. Thus, Harley and Dr. Reddy's Lab are examples of global marketing focus. Gap procures products in the global countries and markets the products through its retail organisation in the USA. Thus, Gap is an example for global sourcing company.

Harley Davidson designs and produces in the USA and gains competitive advantage as Mercedes in Germany. The Gap understands the US consumer and gets competitive advantage.

#### **Stage - 5: Transnational Company**

Transnational company produces, markets, invests and operates across the world. It is an integrated global enterprise that links global resources with global markets at profit. There is no pure transnational corporation. However, most of the

**Notes**

transnational companies satisfy many of the characteristics of a global corporation. For example, Coca-Cola, Pepsi-Cola etc.

**Characteristics of a Transnational Company**

The characteristics of a transnational company include: geocentric orientation, scanning or information acquisition, long-run visions etc. We discuss these characteristics in detail.

**(i) Geocentric Orientation:** A transnational company is geocentric in its orientation. This company thinks globally and acts locally. This company adopts global strategy but allows value addition to the customer of a domestic country. This company allows adaptation to add value to its global offer. Table 3.2 presents stages of international business.

The assets of a transnational company are distributed throughout the world, independent and specialised. The R & D facilities of a transnational company are spread in many countries, but specialised in each country based on the local needs and integrated in world R & D project. Similarly, the production facilities are spread but specialised and integrated.

In case of Caterpillar, manufacturing and assembly facilities are located in many countries. Components are shipped for assembly and the assembled product is shipped to the place of the customer.

**TABLE 3.2: STAGE OF INTERNATIONAL BUSINESS**

Stage and	1	2	3	4	5
Company	Domestic	International	Multidomestic	Global	Transnational
Strategy	Domestic	International	Multidomestic	Global	Global
Model	N.A.	Co-ordinated	Decentralized	Centralized	Integrated
	Federation	Federation	Hub	Network	
View of	Home	Extension	National	Global	Global
World	Country	or	and	Markets	Markets
Markets	Markets	Resources	Resources		
Orientation	Ethno-centric	Ethnocentric	Polycentric	Mixed	Geocentric
Key Assets	Located in	Core	Decentralized	All in home	Dispersed
home	centralized,	and self-	country except	Interdepe-	
country	others	sufficient	marketing	ndent	
	dispersed		or sourcing	and specia-	
				lized	
Role of	Single	Adapting and	Exploiting local	Marketing	Contributions to
Country	country	leveraging	opportunities	or sourcing	company
Units				worldwide	
Knowledge	Home	Created at	Retained within	Marketing	All functions
	country	operating	developed	developed	
	centre and	units		jointly	
	transferred		jointly and	and shared.	
			shared		

Source: Warren Keegen, *op.cit.*, p. 52.

Units of the transnational corporation in different countries create and develop the knowledge in all functions and share among them. Thus, knowledge and experience are shared jointly. Transnational gains power and competitive advantage by developing and sharing knowledge and experience. Development of dishwashing by using video camera by the French subsidiary of Colgate and sharing of the knowledge among all Colgate operating companies across the globe is an example here.

**(ii) Scanning or Information Acquisition:** Transnational companies collect the data and information worldwide. These companies scan the environmental information regarding economic environment, political environment, social and cultural environment and technological environment. These companies collect and scan the information regardless of geographical and national boundaries.

**(iii) Vision and Aspirations:** The vision and aspirations of transnational companies are global, global markets, global customers and grow ahead of other global/transnational companies.

**(iv) Geographic Scope:** The transnational companies scan the global data and information. By doing so, they analyse the global opportunities regarding the availability of resources, customers, markets, technology, research and development etc. *Similarly*, they also analyse the global challenges and threats like competition from other global companies, local companies of host countries, political uncertainties and the like. They formulate global strategy. Thus, the geographic scope of a transnational company is not limited to certain countries in analysing opportunities, threats and formulating strategies.

**(v) Operating Style:** Key operations of a transnational are globalised. The transnational companies globalise the functions like R&D, product development, placing key human resources, procurement of high valued material etc. *For example*, the R&D activity of Proctor & Gamble, and key human resource activity of Colgate are the joint and shared activity of the units of these companies in various countries. (See Table 3.1).

**(vi) Adaptation:** Global and transnational companies adapt their products, marketing strategies and other functional strategies to the environmental factors of the market concerned. *For example*, Mercedes Benz is a superluxury car in North America, luxury automobile in Germany, standard taxi in Europe.

**(vii) Extensions:** Some products do not require any change when they are marketed in other countries. Their market is just extension. *For example*, Casio calculators of Japan, Hero pens of China, and BIC's line of pens, butane lighters and razors.

**(viii) Creation through Extension:** Transnational companies create the global brand through extending the product to the new market. Rothmans Cigarettes extended its product to many European countries and African countries and created it as global and national basis.

**(ix) Human Resource Management Policy:** The transnational company's human resource policy is not restricted by national, political or legal constraints. It selects the best human resources and develops them regardless of nationality, ethnic group etc. But the international company reserves the top and key positions for nationals.

**Notes**

**(x) Purchasing:** Transnational company procures world-class material from the best source across the globe.

The changing scenarios of international business also resulted in adopting various approaches in doing the business by the multinational companies. Now, we study the approaches to international business.

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### 3.6 COMPETENCY REQUIRED FOR INTERNATIONAL MANAGERS

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Competency is a cluster of knowledge, skills and abilities. To be an effective manager, some necessary skills are required. Managers have come to realize the importance of managerial skills; i.e., the ability to accomplish managerial goals through direct, personal action. During the past decade, a “skills movement” has emerged, and managerial skills courses are becoming increasingly widespread. To what extent are these skills courses relevant for international managers? None of the skills require any qualifications about the cultural extent within which the skills they consider will apply. This might lead to the impression that these skills are universal in scope and applicable to any setting, domestic or international.

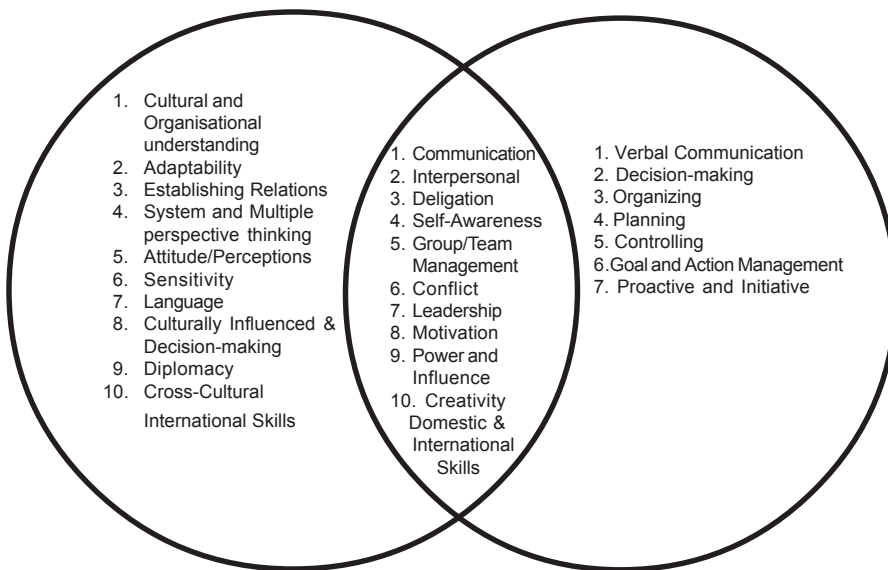
A managerial skill is the ability to accomplish a particular type of managerial goal through personal action. The action may be as simple as a single behaviour, or may comprise a system of behaviours implemented interactively over a period of time. This definition suggests that our image of managerial skills rests on a set of managerial goals/problems currently thought to be important by managers — and which could change over time and setting. This definition also distinguishes the direct and indirect parts of managerial goals. For example, a manager may have a goal of facilitating a meeting, which he/she accomplishes through direct action. The group may then arrive at a quality decision — an indirect result of the manager’s action. Thus the manager’s skill in group facilitation results indirectly in furthering of other organizational goals.

Based on this definition, an identification of important managerial skills can be made. The skills identified are summarized in the box below. International management considers management in a variety of cultural settings. It is therefore more diverse and difficult to summarize.

<b>SKILLS REQUIRE FOR INTERNATIONAL MANAGERS</b>	
1.	Cultural & organizational understanding
2.	Adaptability, flexibility, open-mindedness, willingness to learn, resilience
3.	Communication, active listening
4.	Interpersonal
5.	Negotiation & bargaining
6.	Establishing relations, rapport
7.	Delegation
8.	Self-awareness
9.	System & multiple perspective thinking
10.	Team working, building

**Notes**

11. Attitudes/perceptions (e.g., sincerity, openness)
12. Conflict resolution
13. Leadership
14. Motivation
15. Participative decision
16. Power & influence
17. Sensitivity
18. Language
19. Creativity
20. Culturally influenced decision making
21. Change agen
22. Diplomacy
23. Personal qualities
24. Stress management
25. Time management
26. Cross cultural
27. Tolerance for ambiguity & uncertainty



The skills in the left circle are mentioned for the international managers and those in the right circle are mentioned for the domestic managers. Those in the intersection are mentioned for both domestic and international managers. This classification should not be thought of as a definitive statement as to where each of these skills belongs.

One way of bringing out the differences in these three classifications is to consider the types of skills mentioned in each. Examination of the skills of the above figure suggests that they can be more broadly classified into 6 skill types:

1. Intrapersonal skills, in which self-related goals receive primary emphasis; e.g., decision-making, planning, time and stress management, goal and action management, personal productivity, and self-motivation.



**Notes**

2. Interpersonal skills, in which external relational goals and changes in others are emphasized; e.g., communication and language, delegation, influence, conflict, group management, motivating others, and leadership.
3. Learning skills which enable or facilitate the development of other skills; e.g., self-awareness, creativity, and learning from doing.
4. Personal characteristics — not skills in themselves, but attributes of individuals which studies suggest are related to managerial skillfulness and skill development; e.g., proactivity, disposition to lead, perceptual objectivity, positive regard, and risk taking.
5. Entry skills used to assess and understand an organizational setting and establish effective working relationships in it; e.g., establishing relationships and sensitivity. These are distinguished from interpersonal skills in that they are used primarily to start up relationships, whereas interpersonal skills are used more on an ongoing basis.
6. Administrative skills used to carry out administrative functions; e.g., decision making and planning.

In the above the broad differences of skill mention among these categories are clearer. These differences may be summarized as follows: (1) Both domestic and international emphasize the importance of interpersonal skills and to a lesser extent, learning and intrapersonal skills; (2) the domestic emphasizes administrative skills, and; (3) the international only emphasizes entry skills, and to a lesser extent, personal characteristics.

These findings indicate a shift in skill emphasis as one move from managing in a relatively more homogeneous domestic setting to managing in a more international setting. This shift involves a decreased emphasis on more specific administrative practices which have been established in domestic firms and which may not be appropriate in other cultures, and an increased emphasis on adaptive skills which enable a person to quickly learn about and adjust to different managerial situations found in other cultural settings. In addition the findings strongly support the importance of interpersonal skills in all managerial settings.

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### **3.7 SUMMARY**

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- International business is evolved from international trade and international marketing.
- International business is a crucial venture due to the influence of varied social, cultural, political, economic, natural factors, and government policies and laws.
- Business firms go globally to maximise benefits and minimise risks.
- The five stages of internationalisation are domestic company, international company, multinational company, global company and transnational company.
- International business approaches include ethnocentric approach, polycentric approach, regiocentric approach and geocentric approach.
- The advantages of international business include: wider markets, high living standards, optimum utilisation of resources etc.



- Problems of international business include: political factors, foreign exchange, tariffs, cost etc.
- The firms get the competitive advantages like economies of scale, latest technology, expert human resources, etc., by going global.

**Notes**

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**3.8 KEY TERMS**

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- International Trade
- International Marketing
- International Business
- Host Country
- Wider Market
- Cultural Transformation
- Entry Requirements
- Globalisation
- Quotas
- Tariffs
- Comparative Cost
- Opportunity Cost
- Competitive Advantage
- Exchange Stability

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**3.9 REVIEW QUESTIONS**

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1. How is international business broader in scope compared to international trade and international marketing?
2. Explain the nature of international business.
3. Why is international business a crucial venture?
4. Why do business firms of a country go to other countries? Give your answer with suitable examples.
5. Explain stages of internationalisation.
6. State the different approaches to international business.
7. What are the competitive advantages of international business?
8. Why is international business not a bed of roses? Elucidate your answer with suitable examples.

# 4

Unit

## RECRUITMENT, SELECTION, TRAINING AND DEVELOPMENT

### Objectives

This unit focuses on:

- Understand various macro-level sources of recruitment of employees from various countries;
- Analyze the advantages and disadvantages of ethnocentric approach, polycentric approach, regiocentric approach and geocentric approach;
- Appraise the situations under which each of the recruitment sources are appropriate for the MNCs to source the employees;
- Evaluate centralized and decentralized sources of recruitment;
- Discuss the micro-level sources of recruitment like campus recruitments, professional organizations, body shopping, tele-recruitment etc.
- Understand the section process of employees for MNCs;
- Discuss the expatriate system and reasons and situations when expatriates fail in meeting the demands of the MNCs; and
- Discuss various selection techniques followed by various organizations in selecting foreign employees.
- Understand the challenges of international performance management;
- Analyze the areas in terms of skills and other traits and behaviours to be appraised;
- Understand the conflicting role expectation, difference between role and job expectations and expectations from different organisations;
- Analyse the variety of appraisers in international performance appraisal and determine who should appraise the performance?
- Discuss the system of performance appraisal;
- Understand the problems associated with the international performance appraisal; and
- Discuss the measures to make the international performance appraisal management effective.
- Understand the meaning of global training;
- Discuss the need for global training;
- Analyze different areas of global training and development;

- Understand the cross-cultural training;
- Understand the modes of mobility of human resources across countries consequent upon globalization;
- Discuss the training for long-term assignments and short-term assignment;
- Analyze the concept of global mind-set and global mind-set training.

**Notes****Structure:**

- 4.1 Recruitment: Sources and Processes
- 4.2 Selection
- 4.3 Types of Cross-cultural Training
- 4.4 Multinational Performance Management: Challenges
- 4.5 Areas to be Appraised
- 4.6 Who Should Appraise the Performance?
- 4.7 System of Performance Appraisal
- 4.8 Problems of Performance Appraisal
- 4.9 How to Make Performance Appraisal Effective?
- 4.10 Developing International Staff and Multinational Team
- 4.11 Summary
- 4.12 Key Terms
- 4.13 Review Questions

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**4.1 RECRUITMENT: SOURCES AND PROCESSES**

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Recruitment sources from the international human resource management (IHRM) point of view can be studied under two levels, viz., (i) macro level, i.e., the country from which the human resources are sourced and (ii) micro level, i.e., the institutional sources within a country from which human resources are sourced.

Organizations involved in international human resource management are basically two types, viz., (i) multinational companies and (ii) domestic companies. These companies search for prospective employees both from within the country of operation and outside the country. They source certain categories of prospective employees internationally, if they fail to procure them in the country of operation. Thus, these companies are involved in international human resource management and thus, recruit nationals and expatriates. As explained in the earlier chapters, multinational companies and their subsidiaries recruit three categories of prospective employees, viz., parent country nationals, host country nationals and third country nationals. Domestic companies depending on expatriates, source the employees from other countries which are more or less like third country nationals for a multinational company. Therefore, we study the macro level sources of recruitment under these three broad categories.

**Notes****(1) Recruitment Sources at Macro Level**

Recruitment sources at macro level are of four categories viz., ethnocentric, polycentric, regiocentric and geocentric.

**Ethnocentric Approach/Parent Country Nationals**

Under ethnocentric approach, MNCs at their headquarters formulate mission, objectives strategies, product design etc., and also make important decisions for the subsidiaries and expect the subsidiaries to implement them and report back to all functional/line managers at headquarters level.

Multinational companies which are more particular of home country, implement the policies, strategies, systems and management styles of Headquarters/Parent Company in their subsidiaries. They view that the policies, systems etc., that work at parent company will also work at subsidiaries. Therefore, it sources the human resources for subsidiaries from the parent country nationals. This approach was widely followed by Procter and Gamble, Philips, Matsushita, Toyota etc. When Philips filled the important vacancies by Dutch nationals, non-Dutch employees referred them to as 'Dutch Mafia'. Ethnocentric approach was widely used before 1990s. MNCs like Procter & Gamble, Philips NV and Matsushita also followed it. All important positions in Philips were held by Dutch nationals. Japanese and South Korean MNCs like Toyota, Matsushita and Samsung follow this approach even today. Japanese Overseas Enterprise Association reported in 1996 that 71 per cent of subsidiaries of the Japanese MNCs' were headed by Japanese.

Basically, some MNCs prefer parent country nationals as they trust their people and also prefer to distrust other nationals. They feel that people of their own country are well educated and possess the skills necessary to carry-out the jobs in dynamic businesses like theirs. They also feel that the parent country nationals have a sense of belongingness with the company, and commit themselves to full extent towards the business. This full commitment, according to the MNC's view, would improve the business; enhance the marketing and financial performance.

**Why do MNCs Prefer Ethnocentric Approach?**

Some MNCs source the prospective employees from its home country/by following the ethnocentric approach in their recruitment due to the following reasons.

- Non-availability of qualified personnel in host countries particularly developing countries;
- Availability of qualified personnel comparatively at less cost in home country;
- High cost of host country nationals for certain categories of employees particularly in advanced countries like USA, UK, Germany, Japan and France;
- Home country nationals when work in foreign countries are more committed to the implementation of company's strategies than those of the host country;
- Home country national when employed in host country exhibit highest sense of belongingness to the company than that of the host country.

**When Should MNCs Prefer Parent Country Nationals?****Notes**

MNCs may prefer the source of parent country nationals or follow ethnocentric approach in the following situations:

- During the early stage of the establishment of subsidiary;
- Inadequacy of managerial and technical skills in the host country;
- Greater need for maintaining close communication and co-ordination with headquarters;
- Greater need for maintaining uniform corporate culture;
- When the headquarters has core competencies in terms of skills and knowledge;
- When home country nationals are less costly than host country nationals.

**Advantages of Parent Country Nationals/Ethnocentric Approach**

MNCs prefer parent country nationals/follow ethnocentric approach in sourcing the employees due to the following advantages:

- Parent country nationals are familiar with company goals, strategies, tactics, policies and procedures;
- Parent country nationals are more knowledgeable of the company's products, technology, customer needs and problems, and customer service issues;
- Parent country nationals have close personal network with the headquarters' employees and therefore they can get the things in headquarters/network with headquarters easily;
- Parent country nationals maintain close communication and co-ordination with headquarters.

**Disadvantages of Parent Country Nationals/Ethnocentric Approach**

Though the source of parent country nationals enjoys certain advantages, it suffers from the following disadvantages:

- Absence of opportunities for host country nationals to get better jobs/managerial jobs;
- Reduction in opportunities for human resource development of host country nationals;
- Under-employment of host country's employees;
- Decline in morale and loyalty of host country nationals towards MNCs;
- Poor adaptation and lack of effectiveness of home country nationals in host countries. Procter & Gamble followed the home country nationals source in its subsidiary in Japan and realized that this practice became insensitive to local culture. In addition, this practice underutilized the potentials of its non-American managers in Japan.
- Fails to get the advantage of best human talent worldwide;
- MNCs fail to get the best and broad-based decisions as the same country people (i.e., parent country nationals) tend to make same/stereo-type decisions;

**Notes**

- Normally expatriates are costly, except in advanced countries, due to high salary and a variety of benefits. This increases cost of doing business in foreign countries due to the employment of parent country nationals in subsidiaries rather than host country nationals;
- High cost of salaries and benefits of expatriates create a sense of wage differentials and discrimination among host country nationals. In fact, host country nationals are de-motivated when they compare their remuneration and job designation with the remuneration and job designation of expatriates (See Exhibit 4.1);
- Results in complexities of cross-cultural/diversity management of employees in host countries.
- Home country nationals may take long-time for cultural adaptability and yet sometimes fail to understand and manage host country's nationals and consumer behaviour.

**EXHIBIT 4.1: SAME JOB DESIGNATION + SIGNIFICANT VARIATIONS IN REMUNERATION = DE-MOTIVATION**

<p>CPL Limited-an Australian MNC employed Australians (PCNs) and Papua New Guineans (host country nationals) in its subsidiary in Papua New Guinea. The remuneration package for Australians is ten times more than that for Papua New Guineans for the same job. More than 85%</p>	<p>of the host country employees (Papua New Guineans) complain that they are highly de-motivated as the company pays highly discriminated remuneration for the same job performed by Australians and Papua New Guineans.</p>
<p><i>Source:</i> Survey conducted by the author during August-September 2006.</p>	

Fig. 4.1 presents how to get the best from the source of parent country nationals.

**Implications**

Figure indicates that MNCs can recruit from among parent country nationals when the conditions mentioned in the boxes (1) and (2) concerning to (i) Why PCNs? and (2) When PCNs? vital for operations in the in the host country. Then the MNC can enjoy the best from PCN source as mentioned in box (3), otherwise, MNC would counter with the disadvantages as mentioned in box (4) of the Fig. 4.1. MNCs can source the employees from other sources due to the disadvantages of the ethnocentric approach. The next source is polycentric approach. Now, we shall discuss the polycentric approach.

**Polycentric Approach**

MNC under polycentric approach treats each subsidiary as an independent company and decentralizes almost all the operations and delegates decision-making authority to its executives. The executives of the subsidiary formulate the strategies based on the mission and vision of the subsidiary, design the product/services based on host country's environment (culture, customs, laws, economic conditions, government policies etc.) and the exclusive preferences of the host country customers. Thus, the polycentric approach mostly focuses on the conditions of the host country in formulation and implementations of strategies. The CEO of the subsidiary directly reports the overall CEO of the MNC.

<b>Why PCNs?</b> (1)	<b>When PCNs?</b> (2)	<b>Notes</b>
<ul style="list-style-type: none"> <li>• Cost consideration</li> <li>• Skill consideration</li> <li>• Loyalty consideration</li> <li>• Commitment consideration</li> <li>• Under standing of policies</li> </ul>	<ul style="list-style-type: none"> <li>• Early if establishment if subsidiary</li> <li>• Closer communication</li> <li>• Maintenance of uniform corporate culture</li> <li>• Transfer of core competencies</li> <li>• Coordination with headquarters</li> <li>• Less Cost of HR of HCN</li> <li>• Crisis situations</li> </ul>	
<b>Factors of 1&amp;2 boxes Present, then</b>		<b>Factors of 1&amp;2 boxes Absent, then</b>
<p style="text-align: center;">↓</p> <b>Best from PCNs</b> (3) <ul style="list-style-type: none"> <li>• Familiarity with policies</li> <li>• Critical Knowledge of Product, Technology, customer</li> <li>• Closed Network with headquarters</li> <li>• Close communication/coordination</li> <li>• Less Cost of HR</li> </ul>	<p style="text-align: center;">↓</p> <b>When PCNs?</b> (4) <ul style="list-style-type: none"> <li>• Host country nationals are deprived of HRD, suitable jobs</li> <li>• Differentials/Discrimination</li> <li>• Low morale/loyalty of HCNs</li> <li>• Problem of cultural adaptability of PCNs</li> <li>• No best worldwide human talent</li> <li>• No broad-based decisions</li> <li>• High human resource cost</li> <li>• Complexity of cross-culture</li> </ul>	

Fig. 4.1: Best from PCNs

MNC, sources prospective employees including senior managers for the subsidiary from the host country nationals/local nationals, in view of independent/distinctive identity approach towards subsidiary under polycentric approach. Some MNCs during the later stage of growth of subsidiaries prefer to develop host country nationals though training provided by parent country nationals through various training and development techniques especially through understudy. Once, the host country nationals are developed to man the jobs at the subsidiary, MNCs prefer to place host country nationals in all jobs including senior executive jobs. For example, South Pacific Brewery—a subsidiary of Asia-Pacific Breweries Limited and Coca-Cola Amatil (PNG) Limited is a subsidiary of Coca-Cola Limited at Port Moresby, Papua New Guinea developed Papua New Guineans and placed the nationals at almost all positions including senior management positions.

**Why Do MNCs Prefer Polycentric Approach?**

Some MNCs prefer to source the prospective employees for subsidiaries from the host country nationals. In other words, MNCs follow polycentric approach for recruiting prospective employees for subsidiaries due to the following reasons:

- MNCs follow the policy of developing and helping the nationals of the country, where the subsidiary is located.
- MNCs feel its responsibility and discharge the same towards the society/ community of the country where the subsidiary is located and doing business.
- To reduce the cost of human resources by recruiting the host country nationals due to the high cost of expatriates relative to nationals of the host country.
- Host country nationals closely fit to the culture of the customers.

**Notes**

- MNCs prefer to become 'glocal' companies, i.e., think globally (formulate global policies and strategies) and act locally (implement policies and strategies in accordance with local conditions) in order to maximize business and profits. MNCs recruit employees locally in the process of acting locally.

Now, we discuss when MNC should prefer host country nationals/ follow polycentric approach in recruiting prospective employees.

**When Should MNCs Prefer Host Country Nationals?**

- During the growth stage of the subsidiary
- When human resources of the host country are developed and fully qualified to take up the jobs in subsidiaries of MNCs.
- When the language, culture, customs, ways of serving customers and modes of doing business are distinctive in host country.
- When cost of expatriates is abnormally high affecting the profitability of the subsidiary adversely.
- When host country's Government imposes a condition that certain percentage of employees should be from the nationals of the country.
- When the headquarters do not have any distinctive competencies in terms of skills and knowledge.

Now, we discuss the advantages of host country nationals.

**Advantages of Polycentric Approach**

MNCs prefer host country nationals source/polycentric approach in recruitment of prospective employees due to the following advantages:

- Host country nationals are less costly than expatriates in almost all developing countries. MNCs need not provide a number of benefits to host country nationals what they invariably provide to expatriates. Therefore, due to less salary levels and less variety of benefits, host country nationals are less cost than expatriates.
- Host country nationals have better knowledge of the country's culture, customs, language, serving the customers and way of doing the business compared to those of expatriates.
- Host country nationals have fast and effective adaptability to the business practices of the subsidiary as well as the organizational culture of the subsidiaries.
- When MNCs enter foreign markets through acquiring existing business in a foreign company, employees of the acquired firm (i.e., host country nationals) can do the jobs more efficiently than expatriates as they possess required skills and acquaint with the existing business practices of the firm.
- Level of job satisfaction of employees of subsidiaries can be enhanced.
- People of the host country appreciate the employment practices of MNCs.
- Host country nationals will have relatively stability in employment. Therefore, recruitment as well as retention management would be effective.

Despite these advantages, polycentric approach would suffer from certain disadvantages. Now, we discuss these disadvantages.



### Disadvantages of Polycentric Approach

### Notes

Some MNCs avoid polycentric approach in their recruitment due to the following disadvantages. They are:

- It would be very difficult to coordinate the activities, accounts, financial statements etc., of the subsidiary with those of the headquarters due to variations in culture, business practices, reporting methods, language, dealing with conflicts, negotiation approach etc as the host country nationals may not have the language, culture and relationship problems with the employees in the parent company.
- Managers of headquarters cannot have the hands on experiences of the subsidiaries' business practices as well the managers of the subsidiaries cannot have the hands on experience of the headquarters operations.
- Promotional opportunities of managers as well as employees should be limited both at headquarters and subsidiaries.
- This approach limits the mobility of employees within the subsidiary as well as headquarters.
- Organizational culture of the parent company cannot be adapted in the subsidiaries.
- Work culture as well as organization culture of subsidiaries and headquarters can't be exchanged as polycentric approach isolates the headquarters from its subsidiaries.
- Employees of both headquarters and subsidiaries will not have the feel of working in a single company.

Fig. 4.2 presents how to get the best from the host country nationals' source/ polycentric approach of recruitment.

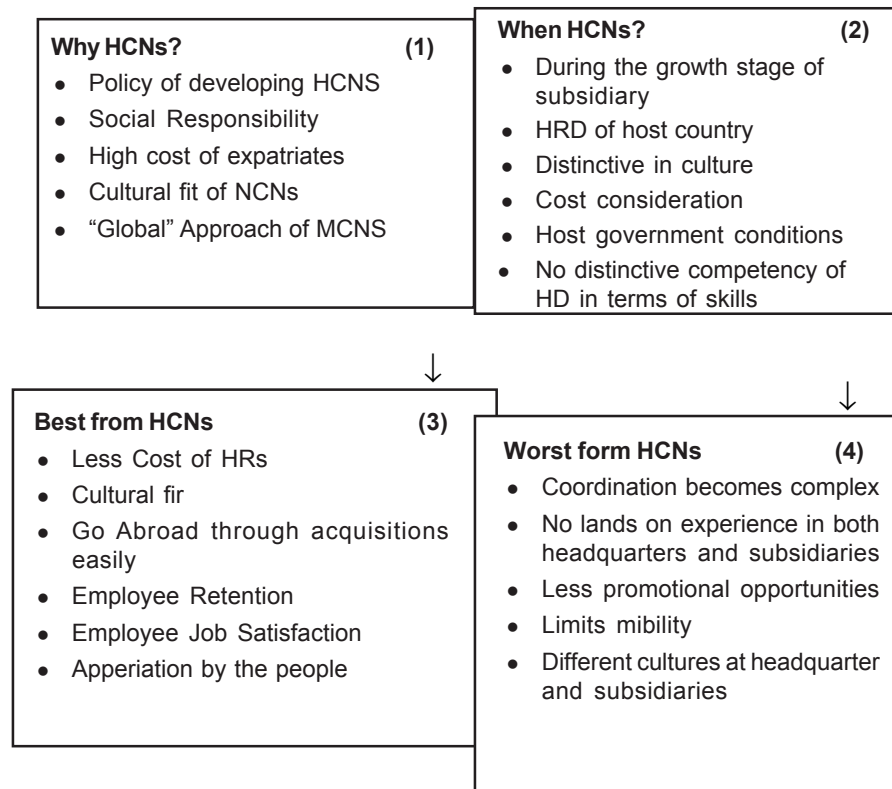
### Implications

Figure 4.2 indicates that MNCs can recruit from among host country nationals when the conditions mentioned in the boxes concerning to (1) why HCNs and (2) when HCNs exist in the host country. Then MNCs can enjoy the best from HCNs as indicated in box (3), otherwise MNCs would counter with the disadvantages/worst practices as mentioned in box (4) of the figure.

There would be some exception to the generality that HCNs can be preferred during the growth stage of the subsidiary. These exceptions include:

- When the host country is rich in developed human resources like software professionals in India, engineering professionals in South Korea and electronics professionals in Japan. In such countries, HCNs can be preferred even during the early stage of the subsidiary and
- When the MNC establishes a subsidiary through the acquisition of an existing company, the subsidiary can continue the present employees of the acquired company.

MNCs follow other kinds of recruitment due to the disadvantages of polycentric approach. Other kind of recruitment includes regiocentric approach. Now, we shall discuss regiocentric approach to recruitment or sourcing prospective employees from within the region where the subsidiary is located.

**Notes**

**Fig. 4.2: Best form HCNs**

Before studying the regiocentric approach to recruit, we study the regiocentric approach to the business operations of MNCs. MNCs after operating successfully in a foreign country, think of exporting to the neighbouring countries of the host country. For example, Hindustan Lever exports its products to Sri Lanka, Nepal and Bangladesh. Similarly, South Pacific Brewery in Papua New Guinea exports to Solomon Islands and Vanuatu. At this stage foreign subsidiary considers the regional environment (like Asian environment or South Pacific environment or European environment that includes culture, living standards of the people/economic environment and technological environment) for formulating common strategies like pricing strategies and product strategies for the region.

Similar to regiocentric approach to business operations, subsidiary sources the prospective employees within the region in which the subsidiary is located. For example, Bata (India) limited sources its employees from South-East Asian regions, LG sources its employees from Asian region and CPL Limited in Papua New Guinea sources its employees from Australia, New Zealand, India and Philippines. Thus, European subsidiaries of MNCs source their prospective employees from European countries like Germany, UK, Italy and France and African subsidiaries source from African countries.

Now, we discuss why MNCs prefer regiocentric approach in recruitment of prospective employees for their subsidiaries.

### **Why do MNCs Prefer Regiocentric Approach?**

Some MNCs source the prospective employees for their subsidiaries from the countries of the region where the subsidiary is located due to the following reasons:

- Non-availability of qualified personnel in adequate number in the host country.
- Candidates from the neighbouring countries possess more or less similar cultural values, custom practices etc., in addition to better skills than that of the host country nationals. Therefore, the neighbouring country nationals fit to the cultural requirements of subsidiary operations as well as task requirements of the job.
- Availability of qualified candidates in the regional countries at less cost compared to those of parent country nationals.
- Candidates from neighbouring countries will have a sense of commitment and belongingness to the subsidiary than those of parent country nationals and other foreigners.

**Notes**

Now, we shall discuss, when should MNCs prefer regiocentric approach?

**When should MNCs Prefer Regiocentric Approach?**

MNCs may prefer regiocentric approach as a source of recruitment of employees for their subsidiaries in the following situations:

- During the transition between growth and maturity stages.
- When subsidiaries expand their operations to the neighbouring countries through direct and indirect exports.
- Inadequacy of managerial and technical skills in host country consequent upon the increase in demand for such skills.
- When neighbouring country nationals with required skills are available at less cost compared to that of the host country nationals.

**Advantages of Regiocentric Approach**

MNCs enjoy the following advantages by preferring the regiocentric approach.

- Cultural familiarity of the candidates with that of the host country.
- Less cost of staff compared to parent country nationals.
- Subsidiary can perform its business operations efficiently in neighbouring countries by recruiting neighbouring country nationals.
- Loyalty and commitment of neighbouring country nationals towards subsidiary.
- Stability in employment of neighbouring country nationals compared to that of other foreigners.
- Subsidiary can employ talented and skills people compared to exclusive host country nationals.

**Disadvantages of Regiocentric Approach**

Regiocentric approach, though, seems to be better than polycentric approach, suffers from the following disadvantages:

- Subsidiary cannot get highly qualified and suitable candidates;
- Subsidiary cannot fully satisfy the host country nationals in human resource development and employment;

**Notes**

- Subsidiary cannot reduce the cost of human resources to the lowest extent.
- Neighbouring country nationals may search for jobs in other MNCs in other countries.

Fig. 4.3 presents how get the best from the regiocentric approach?

**Implications**

Figure 4.3 indicates that MNCs can prefer regiocentric approach when the conditions mentioned in boxes concerning to (1) why regiocentric approach and (2) when regiocentric approach exist. Then MNCs can enjoy the best from regiocentric approach as mentioned in box (3), otherwise MNCs would counter with the disadvantages as mentioned is box (4) of the figure 4.3.

Now, we shall discuss another and broad approach for sourcing prospective employees, i.e., geocentric approach.

**Geocentric Approach/Global Recruitment Approach**

Before studying the meaning of geocentric approach to recruitment, we study the geocentric approach to business operations of MNCs. Under geocentric approach, the entire world is just like a single country for MNCs. They source all kinds of resources like material, parts, finance, human; technology and equipment from all countries in the world based on exclusive business principles of procuring the best quality at the lowest price and market the products/services in the entire world where ever the product can be sold at more favourable terms and conditions. They operate in the entire globe with a number of subsidiaries. Each subsidiary functions like an independent and autonomous company in formulating policies, strategies, product design, human resource policies and the like.

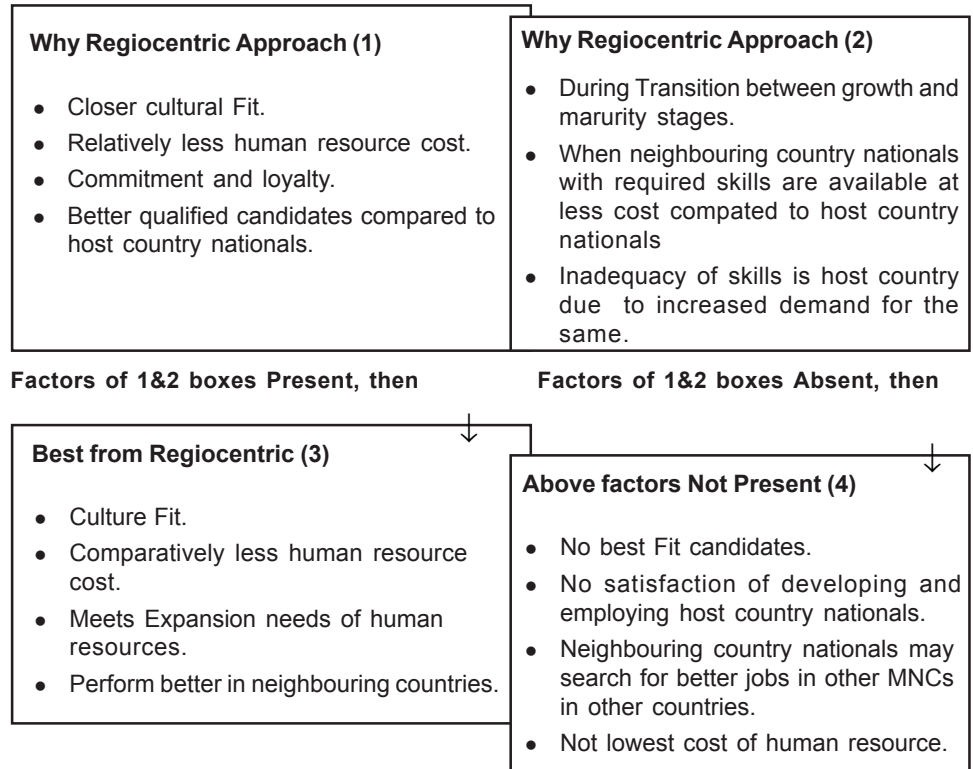


Fig. 4.3: Presents how get the best form the regiocentric approach

Under geocentric approach to recruitment, MNCs source for the best prospective employees in terms of suitability for the job from the entire world, regardless of nationality or ethnic group-or any other consideration. For example, Ms. Indra Nooyi, the Indian national is appointed as the Chief Executive Officer of Pepsi Cola Limited. Electrolux a Swedish MNC claims that it recruited CEOs from various countries and never favoured the Swedish nationals over the other nationals. It selected exclusively based on the suitability of the candidate for the position. (See Box 4.1).

#### BOX 4.1: CANADA IS LOOKING FOR TALENTED INDIANS

Canada's Citizenship and Immigration Minister Diane Finley will be leaving for New Delhi on October 31 to spend a week there to assess Canadian immigration operations in India. In an exclusive interview on Friday, she said, "I will see our operations, and how things are working on the ground. I hear a lot of stories. I want to see firsthand what's happening. "Finley said her interest is also to "send out a message that Canada is looking for talented (Indian) people, looking for the best and the brightest to come here."

It is widely known that a large number of foreign qualified professionals who come to Canada go from pillar to post for certification of their credentials, and the employers insist on their Canadian experience before they can be hired with the result that they are forced to accept any job, just to live. The job that may be completely unrelated to their profession. "We had some problems in the past, (but) in the last 21 months (since the Conservative government came to power) our government has taken a lot of steps to make it easier firstly for new comers to to get in (the country) and secondly, once they are here, to integrate (into the work force) as productive members of our country," Finley said.

As part of this initiative, Finley recently announced the "opening of the referral office" in New Delhi (and also in Beijing) which will "be an agency type of thing, whereby people can through the Internet, personally or telephone find out how well they qualify compared to the Canadian standards for various regulated professions. The regulated professions have different standards from province to province and so we can't directly influence them. We can't do credential assessment, but what we can do is provide newcomers and would be newcomers with a map as to how to get through the maze. How to get through these hurdles (for) credential assessment ideally before they get here so that if there's a gap between their skill levels and what the Canadian standards are, they can work

towards upgrading their skills closing that gap before they even arrive here," she said.

This suggestion has earlier been made by a number of organisations and professionals themselves. Finley said she announced Phase 1 of this programme recently. She added that she would provide more details of this programme, while she's in India as her efforts would be to assure qualified professionals there that if they opt to come to Canada they may not have to face serious challenges integrating into the work force as people earlier faced." I am planning to announce the second phase of this programme soon," she told this reporter. That will be an expansion of the first phase, which will include "a pilot project that we will be running in India. "When asked in concrete terms what kind of progress the government has made in attending to complaints of these foreign qualified professionals who are already in Canada, Finley said, "Obviously each case is unique. But we have focused on several things: one is getting temporary foreign workers get here faster, especially the ones in high demand professions. That's one aspect of it. The other is making it easier for them to stay here."

Before this reporter met Finley at the Federal government's downtown Toronto offices (located in the massive Sun Life towers), she was having a round-table with a group of South Asian business people and others and temporary visas was part of the discussion. That's why invitees included representatives from Tata Consultancy, Aditya Birla group, Polaris Software Lab Canada, and immigration attorneys, etc.

Ravi Jain, immigration specialist with Green and Spiegel, who was among the invitees, said in an interview subsequently, "Canada is doing a great job in Ontario (where processing time for temporary workers is 3 weeks), but out West (British Columbia, Alberta, etc.) the processing time is 6 months. (Service Canada is responsible for confirming labour market

**Notes**

shortages before these type of work permits may be issued)."

"We need more 'pre-approval' offices and we need officers to be able to use their discretion to conclude that there would be a significant benefit to the issuing the work permits," he told Finley. Finley later said Ottawa has "a new programme coming (soon) under certain conditions where you apply for permanent residence within the country. We work with the provinces to streamline the process and to allow them to set higher targets for the professions they need the most. "It is widely known that this varies from province to province as their needs vary depending on their economies: "One province really needs skilled tradespeople, like welders, electricians and bricklayers. Another province needs medical people. "So, the federal immigration department allows them to "set their own priorities and once they choose people, the federal government is committed to expediting those applications. "The Canadian government, Finley said, has also "put \$300-million new money into settlement funding as we know how important it is to help newcomers to integrate into the

new community, to learn Canadian ways while applying for jobs, to learn the English language as it applies to their professions."

Finley said some of the new immigrants require help even "to learn how to handle the transit system. "That's why Ottawa has "put lot of money into lot of programmes. We have signed special agreements with 3-4 provinces now so that they can deliver on the settlement funding. Let us face it – without that help, people don't move ahead fast enough and we are helping people to get work in their field or at least in a related field much faster, get the credentials sooner, close that gap so that they become productive faster for their sake and for the country's sake much sooner. "Finley was rushing for her next appointment and hence, didn't have time to explain as to which parts of India she would be travelling to. She's certainly going to Chandigarh as there are reports of the Canadian consulate-general in Chandigarh facing a lot of problems with some inside sources claiming they in fact advised the former Liberal government against opening that office, but it had political connotations and so Prime Minister Jean Chretien went ahead.

Source: <http://www.rediff.com/money/2007/oct/21canada.htm>(Accessed on22/10/2007).

Many European MNCs used to follow geocentric approach to recruitment. Recently USA multinationals started preferring this source even for CEO positions. General Motors hired J. Ignacio Lopez de Ariortua as Vice-President for world-wide purchasing, Xerox hired Vittorio Cassoni as Executive Vice-President and Esprit de Corp hired Fritz Ammann as President. All these are non-US nationals. In fact, after the recent globalization, the number of MNCs favouring geocentric approach is on increase.

**Why Do MNCs Prefer Geocentric Approach to Recruitment?**

MNCs, particularly, after the recent phase of globalization, prefer geocentric approach to globalization due to the following reasons:

- **Global Business Policy:** MNCs with global business policy operate in many countries in the world and they treat all the countries as single country. Therefore, they invariably follow geocentric approach to recruitment.
- **Intensifying Competition:** Recent phase of globalisation intensified competition between MNCs and domestic companies in addition to competition among MNCs. The intensified competition forces the MNCs to formulate most appropriate and timely strategies and implement them efficiently and also on time. This process needs best talent rather than preferring parent country nationals or host country nationals. Therefore, MNCs prefer the geocentric approach.
- **Technological Revolution:** Recent times witness fast growth and significant innovations in production technology, information technology and technology shifts in logistics management. These technological shifts invariably need the best skills and dynamism, which is not necessarily available either in



parent country or host country. Therefore, MNCs prefer global approach to recruit the best talent.

## Notes

- **Innovative Practices in Various Functional Areas of Business:** Innovative practices in manufacturing operations, marketing practices, financial management activities, and human resource management functions have taken place, particularly in recent times. These practices in variably need the best talent and skills to operate most efficiently. Therefore, MNCs shifted their recruitment approach to global sources in order to recruit the best talent.
- **Increasing Migration:** Globalization and growing international business enabled for the growth of migration of human resources across the countries that enabled the MNCs to source human resources across various countries based on talent. (See Box 4.2).

The next question is when should MNCs prefer geocentric approach? Now, we study it.

### When Should MNCs Prefer Geocentric Approach?

The question here is that at what stage of the business cycle of the MNC, the geocentric/global approach would be appropriate for MNC. The following stages are worth considering at this juncture:

- **Maturity Stage:** Normally MNC would have more competitors during the maturity stage of (i) product in which the MNC has been dealing with, (ii) the industry in which the MNC has been a firm and (iii) of the life cycle of the MNC itself. The MNC has to look for talent rather than other preferences during this stage in order to formulate and implement effective strategies to win over the competitors. For example, photocopiers like Xerox and Cannon, TV and refrigerator manufacturers should in variably go for talent and prefer geocentric approach.
- **Customer Awareness:** MNCs should search for talent globally when the customers around the world are aware of the product, mechanisms and technologies involved in the operation of the product. This is because, the MNC's employees should be more knowledgeable than customers in order to satisfy the latter's needs and develop new functions to the products. For example, the customers of mobile phones, computers and software acquire the knowledge of the product easily and also expect new features and functions to be added. In fact, repetitive sales can take place, for these products, only when additional features are added. The young customers create challenges to certain companies producing mobile phones, computers, developing software, and cameras. Therefore, MNCs affected by wide customers' awareness particularly of young customers should attract the best talent, wherever it is available.

#### BOX 4.2: MIGRATION OF HUMAN RESOURCES ACROSS COUNTRIES

It is estimated that the total number of migrants in the world doubled from 75 million to 150 million between 1965 and 2000. Today, 120 million of these are thought to be labour migrants. While it is true that at the turn of the century there was more migration, the difference today

is that it is affecting more countries as origin, transit and destination countries.

In developed countries competition is increasing to recruit skilled immigrants to meet shortages in key sectors. Employers in these sectors are increasingly working closer with governments and other social

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partners to identify where skills shortages exist and proposing measures to rectify the situation. This includes ensuring that housing and work permits are accessible to those with the required skills. Unquestionably, labour migration can have a net beneficial effect on both sending and receiving countries. It can be a win-win situation.

There are a number of processes at the international level addressing the issue. The IOE worked closely with the Global Commission on International Migration which was set up by the UN Secretary-General in December 2003, the main mandate of which was to raise the profile of global migration. The Commission was

also charged with analyzing gaps in current policy approaches to migration and examining linkages with other issues.

Through the Doha multilateral trade round, the focus is placed on the further liberalization of trade in services through the cross-border movement of professional, managerial and technical personnel. The IOE tracks these developments through the WTO consultative process, in which it participates. In the ILO, the 2004 International Labour Conference agreed to the adoption of a Multilateral Framework on Migration to guide its future work in this area. The IOE participated in the drafting of the Multilateral Framework.

Source: <http://www.ioe-emp.org/> ( Accessed on 12/09/2007)

- **Non-availability of Talent in Home and Host Countries:** MNCs should search for talent in global countries when the employees with required talent are not available either in the home country or in the host country. For example City Pharmacy Fijian companies operating in PNG source the employees from Australia, New Zealand, India and Philippines. (See Box 4.3).

**BOX 4.3: TALENT HUNT****Training in progress in an IT company.**

People are essential for an organisation's long-term success. Selecting the right people for the right jobs can be a key differentiator between success and failure. An organisation will have to use effective strategy to select, retain and develop people for delivering true value and high performance. Given the high attrition rates, it has become imperative for any company to hire candidates with not only the right technical skills, but also the attitude and behaviour pattern, which match the company's profile and culture.

Today, a number of companies are using psychometric testing to ensure that it gets just the right kind of manpower. This serves the dual purpose of ensuring quality and saving time. Popular

psychometric tools in use are LLQ, 16PF, MMPI, OPQ32 and FIRO, to name a few. These tools enable a company to test the candidate's personality and behavioural aptitude. The tests comprise online personality tests, motivation tests, cognitive tests and simulation exercises. A candidate who has undergone such a test can be assigned the best suited job, depending on the analysis of the results.

"About 20 per cent of Indian companies use some form of psychometric tests while recruiting candidates. We see this going up to 40 per cent in the next five years. In an online assessment, the identity of a test taker is completely anonymous. The consolidated report is also generated online and the information is provided in an easy-to-comprehend graphical format," says Y. V. L. Pandit, Managing Director of SHL (India).

Source: <http://www.hindu.com/biz/2007/07/23/stories/2007072350101600.htm> (Accessed on 12/09/2007)

- **Absence of Restrictions of Host Government:** MNCs can follow geocentric approach, when governments of host countries do not impose restrictions on employment.
- **Other Factors:** MNCs should source the talent globally when their profitability, survival and growth are the priorities over the social obligations political considerations and cultural implications.

Now, we shall discuss the advantages of geocentric approach.



### Advantages of Geocentric Approach

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The advantages of geocentric approach include:

Geocentric approach is appropriate as: competent pool, shared learning, core competition, best talent at least cost etc.

- **Competent Pool:** Geocentric approach to recruitment helps for attracting most qualified people willing to serve globally, maintain a pool of applicants and select the best among them.
- **Shared Learning:** The competent employees who work in subsidiaries and headquarters throughout the world share and transfer their skills to other employees of the MNC, which in turn, leads to human resource development, career and succession planning and development.
- **Core Competencies:** MNC can develop core competencies as well as distinctive competency in skills, talent and knowledge and competent successfully.
- **Flexibility and Adaptability:** Geocentric approach helps to develop global culture which has more cultural flexibility and adaptability, bilingual and multilingual skills that would suit to varied situations.
- **Reduction in Resentment:** Geocentric approach which would normally bring third country nationals, invariably bring an acceptance between parent country nationals and host country nationals in case of top level positions. This is because, employees perceive third country nationals as an acceptable compromise between headquarters and national managers, resulting in reduction in resentment.
- **Best Talent at Less Cost:** MNCs can place adequate emphasis on reduction in the cost of staff at the same time recruiting talent, in case of geocentric approach. This is time when the home country nationals and host country nationals with the same/similar skills are costlier than the third country nationals. MNCs with truly global orientation towards staffing are phasing out ethnocentric, polycentric and regiocentric approaches to recruitment.
- **Transpatriates:** MNCs with global approach, recruit the people from any country. Such employees are termed as 'transpatriates', replacing the term expatriates. MNCs like Philips, Heinz, Uni level, IBM and ABB following global approach.

However, geocentric approach suffers from certain disadvantages. Now, we discuss them

### Disadvantages of Geocentric Approach:

MNCs that follow, geocentric approach, suffers from the following disadvantages:

- **Immigration controls by Host country Governments:** Host country governments, normally insist MNCs, to employ the nationals and therefore, impose restrictions on the employment of foreigners (see Box 4.4). Normally, the host government's restrictions imply that MNCs can source globally for those skills which are not available within the country. Almost all the countries impose restrictions on employment of foreign nationals including USA, UK, Japan, Malaysia, Papua New Guinea and Eritrea. Therefore, it would be difficult for MNCs to follow geocentric approach for all the jobs.

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## BOX 4.4: IT MAJORS NOW FACE L VISA CHARGES

Two US Senators – Grassley and Durbin – who have been raising questions about H-1B visa abuse by offshore outsourcing vendors have now alleged that the off shoring firms are also using the L visas to circumvent the system. Leading Indian and global information technology firms such as Tata Consultancy Services (TCS), Cognizant Technology Solutions, IBM, Satyam Computer Services and Wipro top the list of L visa users for the financial year 2006-07. TCS received 4,887 of the L visas in 2006-07. The company, which was also awarded 3,046 H-1B visas last year, was given 5,517 L visas in 2005-06, Durbin and Grassley said. The two Senators said Teaneck, New Jersey-based Cognizant Technology Solutions, which has offshore facilities in India, received 2,226 H-1B visas and 3,520 L visas in FY06. The latter figure was up from 1,888 visas the year before. The debate has cropped up even as a revamped immigration reform Bill is to be presented on the Senate floor this week. The L visas, which include the L-1 and other lesser-known documents, can be used by multinational companies to transfer employees from overseas locations to offices in the US.

They don't have some of the restrictions that H-1B visas do, such as the

requirement that workers be paid prevailing wages on par with the salaries of American workers. Moreover, while H-1B visas are capped at 65,000 a year, there is no annual limit to the number of L visas. The number of such visas issued has increased from 39,886 in 2001 to 53,144 in 2006.

"I would like to know how many American workers these companies hire compared with the number of foreign workers they bring in," said Grassley in a press statement. "I find it hard to believe that any one company has that many individuals that are legitimately being transferred within a single year. I find it even harder to believe that these L visas are being used appropriately when many of the same companies are some of the largest employers of H-1B workers. It's clear that the foreign outsourcing firms are abusing the system and we can't let that continue," added Durbin. Grassley and Durbin said they would continue to investigate the blanket L petition that allows companies to bring in a limitless amount of workers. Earlier this month, the duo had sent letters to the top-nine foreign-owned companies, including IT biggies such as TCS, Infosys, Wipro and Satyam, to determine the companies' usage of H-1B visas.

Source: <http://www.rediff.com/money/2007/jun/28visa.htm> (Accessed on 28/6/2007).

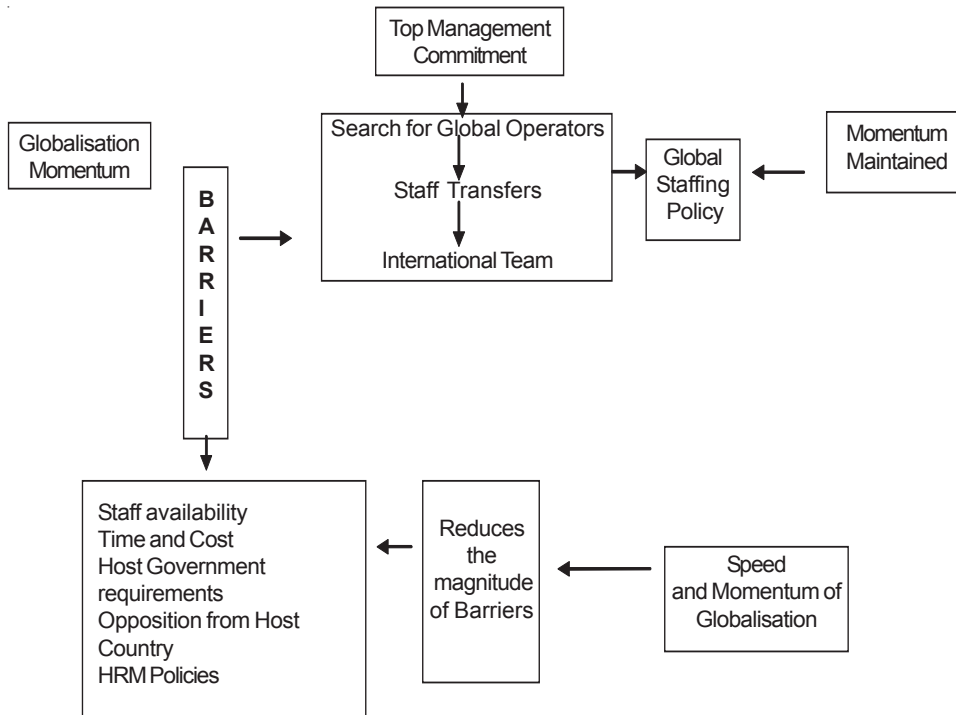
Therefore, MNCs can not really get the advantage of getting the best talent at the low cost of for those categories of jobs, where skills are available within the host country, some times at higher cost. This is true in case of advanced countries like USA, UK and Japan also.

- **Immigration Formalities:** Many advanced countries and some developing countries lay down unnecessary, and time consuming formalities, documentation and high fee for recruiting and employing foreign nationals. Companies find these formalities are time consuming, costly and test their patience in recruiting foreign nationals. In addition, immigration authorities lay down still tough procedure for granting visa for spouse and children of employees. These formalities discourage the MNCs in recruiting employees globally at least for certain jobs.
- **Opposition from Nationals:** People from the host country oppose the geocentric approach to recruitment as it result in loss of jobs for them. In fact, some people even in USA and UK organized the protests against geocentric policies as well as against expatriates with the slogans such as 'expatriates go back', 'expatriates grab our jobs' etc. This situation may create a sense of insecurity among the expatriate employees and their family members.
- **Additional Costs:** Though, geocentric policy seems to be less costly, in terms of salary, sometimes it may not be true as implementation this policy

involves training in culture, language, adjustments, developing national employees in tune with third country nationals etc.

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In view of these disadvantages as well as certain other limitations, MNCs find it difficult to follow geocentric approach as presented in Fig. 4.4.



**Fig. 4.4: Maintaining a Globalisation Momentum through a Global Staffing Policy**

Source: Adapted from D. Welch, "HRM Implications of Globalisation", Journal of General Management, 19:4 Summer 1994, p. 520.

The magnitude of the disadvantages of geocentric approach towards recruitment would be reduced by the effect and momentum of globalization. Consequently, MNCs can prefer geocentric approach. In fact, MNCs in developing countries follow geocentric approach for most of the key position as the magnitude of the barriers in developing countries is less. This is because; governments of developing countries prefer economic development even at the cost of loss of jobs in the short run. For example, most of the African countries, like Kenya, Nigeria and Ethiopia and some of the Asian countries like Malaysia, Thailand and Singapore prioritized economic development over loss of jobs in the short-run.

Despite the pros and cons of geocentric approach, MNCs should go for best-fit human resources to their mission, goals and strategies. Therefore, MNCs with global business strategy would invariably go for geocentric approach and work for minimization of disadvantages.

Fig. 4.5 presents how to get the best from geocentric approach to recruitment.

**Implications**

Figure 4.5 indicates that MNCs can recruit from any country in the world when the conditioned mentioned in the boxes concerning to (1) why geocentric approach and (2) when geocentric approach prevail. Then MNCs can enjoy the best from the

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geocentric approach or transpatriates as mentioned in box (3), otherwise, MNCs would encounter with the disadvantages as mentioned in box (4) of the Figure 4.5.

**Conclusion**

Thus, the sources of recruitment for international human resources are parent country nationals, host country nationals and third country nationals. The sources from a comprehensive outlook include all countries of the world, to source the best talent for the jobs.

Within the macro sources, organizations seeking human resources from international sources should identify the micro level sources within the macro sources. Now, we shall discuss the micro sources of recruitment.

Why Geocentric Approach (1)	Why Geocentric Approach (2)
<ul style="list-style-type: none"> <li>Need for best talent due to competition, technological revolution, innovative practices consequent upon globalization</li> </ul>	<ul style="list-style-type: none"> <li>Maturity stage of Product, industry and Firm</li> <li>Global Business Policy</li> <li>Customer Awareness/knowledge/skill</li> <li>Non-availability of talent in home and host countries</li> <li>Absence of restrictions on employment</li> </ul>
Factors of 1 & 2 boxes present, then best from Geocentric Approach	Factors of 1 & 2 boxes not present, then Worst from Geocentric Approach
<ul style="list-style-type: none"> <li>Pool of best talent (3) ↓</li> <li>Shared Learning and HRD</li> <li>Global culture</li> <li>Less HR cost</li> <li>Transpatriates</li> </ul>	<ul style="list-style-type: none"> <li>Host country Restrictions on employment (4) ↓</li> <li>Immigration Control/procedures</li> <li>Opposition from Host Country Nationals</li> <li>Sometimes costly.</li> </ul>

Fig. 4.5: Best form Geocentric Approach

**(2) Centralised vs. Decentralised Recruitment**

Recruitment practices vary from one MNC to another MNC. Some MNCs prefer to have centralized recruitment by recruiting the candidates for subsidiaries also while some other MNCs prefer the subsidiaries to recruit their own candidates through decentralized policies.

**Merits of Centralised Recruitment**

Merits of centralisd recruitment include:

- (i) Average cost of recruitment per candidate/unit should be relatively less due to economies of scale.
- (ii) It would have more expertise available to it.
- (iii) It can ensure broad uniformity among human resources of various subsidiaries and headquarters in respect of education, skill, knowledge, talent etc.
- (iv) It would generally be above malpractices, abuse of powers, favouritism, nepotism, bias etc.
- (v) It would facilitate interchangeability of staff among various subsidiaries and parent company.

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- (vi) It enables the line managers of various subsidiaries and parent company to concentrate on their operational activities by relieving them from the recruitment functions.
- (vii) It enables the organisation to have centralised selection procedure, promotional, transfer procedure, career planning and development, etc.
- (viii) It ensures the most effective and suitable placements to candidates.
- (ix) It enables centralised training programmes which further brings uniformity and minimises average cost of staff.

Despite these advantages of centralised recruitment some MNCs resort to decentralised recruitment for the following reasons:

**Merits of Decentralised Recruitment**

- (i) The subsidiary concerned concentrates only on those sources/places where it normally gets the suitable candidates. As such the cost of recruitment would be relatively less.
- (ii) The subsidiary gets most suitable candidates as it is well aware of the requirements of the jobs regarding cultural, traditional, family background aspects, local factors, social factors etc.
- (iii) Subsidiaries can recruit candidates as and when they are required without any delay.
- (iv) The subsidiary would enjoy freedom in finding out, developing the sources, in selecting and employing the techniques to stimulate the candidates.
- (v) The subsidiary would relatively enjoy advantage about the availability of information, control and feedback and various functions/processes of recruitment.
- (vi) The subsidiary would enjoy better familiarity and control over the employees it recruits rather than on employees selected by the parent company.

Both the systems of recruitment would suffer from their own demerits. Hence, the management has to weigh both the merits and demerits of each system before making a final decision about centralising or decentralising the recruitment. Alternatively management may decentralise the recruitment of certain categories of employees preferably middle and top level managerial personnel and centralise the recruitment of other categories of employees preferably lower level positions in view of the nature of the jobs and suitability of those systems for those categories of positions. The management has to find out and develop the micro-level sources of recruitment after deciding upon centralising or decentralising the recruitment function.

**(3) Micro-Level Sources of Recruitment**

Organisations seeking to acquire human resources from international sources should identify the sources within each country they selected for sourcing the employees. These sources may vary from country to country due to the varied level of development of institutions in different countries. These micro level sources in general include: (a) Subsidiaries, (b) Parent Companies, (c) Campus Recruitment, (d) Private Employment Agencies/Consultants (e) Professional Associations, (f) Data Banks, and (g) Internships.

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**Subsidiaries:** Parent companies can source the prospective employees from their subsidiaries operating in various countries. Subsidiaries, may at times act as a potential sources of recruitment for headquarters as they develop the human resources for higher level jobs also. This source also helps the MNC to plan for careers of its employees. This also results in enhancing employee satisfaction, loyalty and commitment to the company.

**Parent Company:** Subsidiaries can source their prospective employees from the parent companies. Parent country nationals have knowledge of the company products/services, operations, procedures and organizational culture. Technically and organizational culture points of view they would be best candidates. This source also reduces the cost of recruitment to the company in addition to satisfying employee's needs for promotion and fulfilling their career goals. Further, employee commitment and organizational loyalty would increase.

**Campus Recruitment:** Parent companies and subsidiaries can get fresh candidates of different types from various educational institutions like Colleges and Universities imparting education in Science, Commerce, Arts, Business Management, Engineering and Technology, Agriculture, Medicine, Computer Science, etc., and trained candidates in different disciplines Most of the Universities and Institutes imparting technical education in various disciplines like engineering, technology, management studies provide facilities for campus recruitment and selection. They maintain the bio-data and performance required of the candidates. Organizations seeking to recruit the candidates from this source can directly contact the institutes either in person or via on-line and stimulate the candidates to apply for jobs. Most of the organizations using this source, perform the function of selection after completing recruitment in the campus of the Institute itself with a view to minimising time lapse and to securing the cream before it is attracted by some other organizations. Infosys and Satyam Computers recruit the prospective employees through campus recruitment from universities in USA, UK and China. (See Box 4.5).

**BOX 4.5: ATTRACTING THE EMPLOYEES**

The baby-boomers' kids are marching into the workplace, and look out: This crop of twenty somethings really is different. Fortune's Nadira Hira presents a field guide to Generation Y.

Nearly every businessperson over 30 has done it: sat in his office after a staff meeting and – reflecting upon the 25-year-old colleague with two tattoos, a piercing, no watch and a shameless propensity for chatting up the boss – wondered, What is with that guy?!

We all know the type: He's a sartorial Ryan Seacrest, a developmental Ferris Bueller, a professional Carlton Banks. (Not up on twenty something media icons? That's the "American Idol" host, the truant Matthew Broderick movie hero, and the overeager Will Smith sidekick in "Fresh Prince of Bel-Air.")

At once a hipster and a climber, he is all nonchalance and expectation. He is

new, he is annoying, and he and his female counterparts are invading corporate offices across America. Generation Y: Its members are different in many respects, from their upbringing to their politics. But it might be their effect on the workplace that makes them truly noteworthy – more so than other generations of twenty something that writers have been collectively profiling since time immemorial. They're ambitious, they're demanding and they question everything, so if there isn't a good reason for that long commute or late night, don't expect them to do it. When it comes to loyalty, the companies they work for are last on their list – behind their families, their friends, their communities, their co-workers and, of course, themselves.

But there are a whole lot of them. And as the baby-boomers begin to retire, triggering a ballyhooed worker shortage, businesses are realizing that they may have no choice but to accommodate these



curious Gen Y creatures. Especially because if they don't, the creatures will simply go home to their parents, who in all likelihood will welcome them back.

### **5 big mistakes new graduates make**

Some 64 million skilled workers will be able to retire by the end of this decade, according to the Conference Board, and companies will need to go the extra mile to replace them, even if it means putting up with some outsized expectations. There is a precedent for this: In April 1969, *Fortune* wrote, "Because the demand for their services so greatly exceeds the supply, young graduates are in a strong position to dictate terms to their prospective employers. Young employees are demanding that they be given productive tasks to do from the first day of work, and that the people they work for notice and react to their performance."

Those were the early baby-boomers, and – with their '60s sensibility and navel-gazing - they left their mark on just about every institution they passed through. Now come their children, to confound them. The kids – self-absorbed, gregarious, multitasking, loud, optimistic, pierced – are exactly what the boomers raised them to be, and now they're being themselves all over the business world. It's going to be great.

"This is the most high-maintenance workforce in the history of the world," says Bruce Tulgan, the founder of leading generational-research firm Rainmaker Thinking. "The good news is they're also going to be the most high-performing workforce in the history of the world. They walk in with more information in their heads, more information at their fingertips – and, sure, they have high expectations, but they have the highest expectations first and foremost for themselves." So just who is this fair bird?

### **Plumage**

*The creature in the wild: Joshua Butler, audit associate, KPMG*

With his broad networker's smile, stiff white collar, and polished onyx cuff links, Joshua Butler has the accouterments of an accountant. Even so, he looks a little out of place in a KPMG conference room. At 22, he's 6-foot-2 and 230 pounds, with a body made for gladiator movies. A native of suburban Washington, D.C., Butler chose accounting after graduating from Howard University because he wanted "transferable skills." At KPMG he's getting

them – and more: The firm has let him arrange his schedule to train for a bodybuilding competition, and he's on its tennis team. Even before that, KPMG got his attention when it agreed to move him to New York, his chosen city. "It made me say, 'You know what? This firm has shown a commitment to me. Let me in turn show some commitment to the firm.'" He pauses, a twinkle in his eye. "So this is a merger, if you will – Josh and KPMG."

Boomers, know this: You are outnumbered. There are 78.5 million of you, according to Census Bureau figures, and 79.8 million members of Gen Y (for our purposes, those born between 1977 and 1995). And the new generation shares more than just an age bracket.

### **20 Great Global Employers for New Graduates**

While it may be crass to "define" such a group, any Times Square tourist could probably do so with one finger - pointed at the MTV Networks building. Gen Y sometimes seems to share one overstimulated brain, and it's often tuned to something featuring Lindsay Lohan. Add to that the speed with which Yers can find Lindsay Lohan – day or night, video or audio – in these technology-rich times, and it's suddenly not so strange that Gen Y has developed such a distinct profile. And what a profile it is. As the rest of the nation agonizes over obesity, Gen Yers always seem to be at the gym. More than a third of 18- to 25-year-olds surveyed by the Pew Research Center for the People and the Press have a tattoo, and 30 percent have a piercing somewhere besides their earlobe. But those are considered stylish, not rebellious.

And speaking of fashion, this isn't a group you'll catch in flannel. They're all about quiet kitsch – a funky T-shirt under a blazer, artsy jewelry, silly socks – small statements that won't cause trouble. The most important decorations, though, are electronic – iPods, BlackBerrys, laptops – and they're like extra limbs. Nothing is more hilarious than catching a Gen Yer in public without one of those essentials. Let's just say most wouldn't have lasted long on Walden Pond. When it comes to Gen Y's intangible characteristics, the lexicon is less than flattering. Try "needy," "entitled." Despite a consensus that they're not slackers, there is a suspicion that they've avoided that moniker only by creating enough commotion to distract from the fact that they're really not that into "work." Never mind that they often need an entire

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team – and a couple of cheerleaders – to do anything. For some of them the concept "work ethic" needs rethinking. "I had a conversation with the CFO of a big company in New York," says Tamara Erickson, co-author of the 2006 book "Workforce Crisis," "and he said, 'I can't find anyone to hire who's willing to work 60 hours a week. Can you talk to them?' And I said, 'Why don't I start by talking to you? What they're really telling you is that they're sorry it takes you so long to get your work done.'"

That isn't the only rethinking Gen Yers have done. Their widespread consumption of uniform media has had some positive effects. Girls watch sports and play videogames, and no one thinks twice about it. And boys can admit to loving "The Real World" with impunity. Race is even less of an issue for Gen Yers, not just because they're generally accustomed to

diversity, but because on any given night they can watch successful mainstream shows featuring everyone from the Oscar-winning rap group Three 6 Mafia to wrestler Hulk Hogan. It all makes for a universe where anything - such as, say, being a bodybuilding accountant - seems possible. Of course, Gen Yers have been told since they were toddlers that they can be anything they can imagine. It's an idea they clung to as they grew up and as their outlook was shaken by the Columbine shootings and 9/11. More than the nuclear threat of their parents' day, those attacks were immediate, potentially personal, and completely unpredictable. And each new clip of Al Gore spreading inconvenient truths or of polar bears drowning from lack of ice told Gen Yers they were not promised a healthy, happy tomorrow. So they're determined to live their best lives now.

*Source:* [http://money.cnn.com/magazines/fortune/fortune\\_archive/2007/05/28/100033934/index.htm](http://money.cnn.com/magazines/fortune/fortune_archive/2007/05/28/100033934/index.htm) (Accessed on 21/06/2007).

**Campus Recruitment Techniques:** Companies realise that campus recruitment is one of the best sources for recruiting the cream of the new and young blood. The techniques of campus recruitment include:

- Short listing the institutes based on the quality of students intake, faculty facilities and past track record.
- Selecting the recruiting team carefully.
- Offering the smart pay rather than high pay package.
- Presenting a clear image of the company and the corporate culture.
- Present the company but do not over sell the company.
- Getting in early. Make an early bird offer.
- Focusing on career growth opportunities that the MNC offers to the recruits.
- Include young line managers and business school (B-school) and engineering School (E-school) alumni in the recruiting team.
- Build the relationships with the faculty, administrators and students to grab them before the rivals do.

**Private Employment Agencies/Consultants:** Private employment agencies or consultants like ABC. Consultants perform the recruitment functions on behalf of a client company by charging a fee. Line managers are relieved from recruitment functions so that they can concentrate on their operational activities and recruitment functions is entrusted to a private agency or consultants. But due to limitations of high cost, ineffectiveness in performance, confidential nature of this function, managements sometimes do not depend on this source. However, these agencies function effectively in the recruitment of executives. Hence, they are also called executive search agencies. Most of the MNCs depend on this source for highly specialised positions and executive positions.



**Professional Organisations:** Professional organisations or associations maintain complete bio-data of their members and provide the same to various MNCs on requisition. They also act as an exchange between their members and recruiting firms in exchanging information, clarifying doubts etc. MNCs find this source more useful to recruit the experienced and professional employees like executives, managers, engineers etc.

**Data Banks:** MNCs can collect the bio-data of the candidates from different sources like employment exchanges, educational/ training institutes, candidates etc., and feed them in their data banks. It will become another source and the MNC can get the particulars as and when it needs to recruit.

**Internships:** MNCs encourage the college and university students to work under internship projects. Students under internships learn practical aspects of the jobs while imparting the latest technical and conceptual skills they learnt in the college to the regular employees of the MNC. Thus the students exchange the knowledge. MNCs have an opportunity to evaluate the skills, intelligence and performance of the candidates and offer full-time jobs, if the MNC finds the candidate suitable for the job. Similarly, the internship candidates also have a chance to evaluate the organizational systems of MNC and make a decision to accept the offer of full-time job or not. Thus, internship works as an effective source of recruitment.

Now, we shall discuss the techniques of recruitment for global human resources:

#### (4) Techniques of Recruitment

Recruitment techniques are the means or media by which MNCs contacts prospective employees or provide necessary information or exchanges ideas or stimulate them to apply for jobs. MNCs use different types of techniques to stimulate internal and external candidates. Techniques useful to stimulate internal candidates are:

(i) Promotions; and

(ii) Transfers;

Techniques useful to stimulate external candidates;

(iii) Present employees;

(iv) Scouting;

(v) Advertising.

(i) *Promotions:* Most of the internal candidates would be stimulated to take up higher responsibilities and express their willingness to be engaged in the higher level jobs if management gives them the assurance that they will be promoted to the next higher level.

(ii) *Transfers:* Employees will be stimulated to work in the new subsidiaries if MNC wishes to transfer them to the places of their choice.

(iii) *Employee Referrals:* MNCs, recently started using employee referrals as a technique to recruit the employees. Existing employees of MNCs recommend the candidates through their known sources or professional networks for jobs. MNCs, then contact such candidates and conduct selection tests, if the candidates express an interest to be considered

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for a job. MNCs pay incentives to the existing employees who referred the candidates, upon the success in employing the candidates. (See Box 4.6).

**BOX 4.6: EMPLOYEE-REFERRAL BONUSES, TOWN HALL MEETINGS**

I don't remember when I first heard about employee-referral bonuses, but I remember how jazzed I was once I understood the concept. The company needs employees – the current employees have friends – it's a match made in heaven. Done right, an employee referral bonus program can lower the cost of hiring, improve morale, and lower turnover, and what company wouldn't kill for those things?

I've been a fan of employee-referral bonuses for at least 20 years, and that's why they've made our list of the 10 Best Corporate Practices. This list – 10 ideas that make great sense for employees and for the organizations that employ them -- is the sister list to our 10 Worst Corporate Practices roster.

**Employee-Referral Bonuses**

The company gets a new employee with no recruiting fee, your friend gets a new job, and you get a check and the gratitude of both your friend and employer. What's not to like?

**Employee-Driven Transfer Policies**

I'm all in favor of policies that let you apply for jobs posted internally without your manager's approval. After all, different folks do better or worse work for different managers. And smart companies would rather have people stay in the organization than move to another employer because a self-interested manager blocked a requested transfer.

Source: [http://images.businessweek.com/ss/07/04/0409\\_best\\_mngt/index\\_01.htm?campaign\\_id=yhoo](http://images.businessweek.com/ss/07/04/0409_best_mngt/index_01.htm?campaign_id=yhoo) (Accessed on 07/04/2007).

- (iv) *Scouting*: Scouting means sending the representation of the MNCs to various sources of recruitment with a view to persuading or stimulating the candidates to apply for jobs. The representatives provide information about the company and exchange information and ideas and clarify the doubts of the candidates.
- (v) *Advertising*: Advertising is widely accepted technique of recruitment, though it mostly provides one way communication. It provides the candidates in different sources, the information about the job and company and stimulates them to apply for jobs. It includes advertising through different media like newspapers, magazines of all kinds, television etc.

The technique of advertising should aim at: (a) attracting attention of the prospective candidates; (b) creating and maintaining interest; (c) stimulating action by the candidates.

Management in order to achieve these objectives of advertising has to:

- (i) Analyse job requirements;
- (ii) Decide who does what;
- (iii) Write the copy;
- (iv) Design the advertisement;
- (v) Plan and select the media; and
- (vi) Evaluate response.

The management after selecting the recruitment techniques has to decide upon the type of appeal in order to make the recruitment efforts effective.

**Modern Sources and Techniques of Recruitment****Notes**

A number of modern recruitment sources and techniques are being used by the MNCs in addition to traditional sources and techniques. These sources and techniques include walk in and consult in, head-hunting, body-shopping, business alliances, and tele-recruitment.

**(i) Walk-in:** The busy and the rapid changing MNCs do not find time to perform various functions of recruitment. Therefore, they advise the potential candidates to attend for an interview directly and without a prior application on a specified date, time and at a specified place. The suitable candidates from among the interviewees will be selected for appointment after screening the candidates through tests and interviews.

**(ii) Consult-in:** The busy and dynamic companies encourage the potential job seekers to approach them personally and consult them regarding the jobs. The companies select the suitable candidates from among such candidates through the selection process.

**(iii) Head-hunting:** The MNCs request the professional organisations to search for the best candidates particularly for the senior executive positions. The professional organisations search for the most suitable candidates and advise the MNC regarding the filling up of the positions. Head-hunters are also called search consultants.

**(iv) Body Shopping:** Professional organisations and the hi-tech training institutes develop the pool of human resources for the possible employment. The MNCs contact these organisations to recruit the candidates. Otherwise, the organisations themselves approach the prospective employees to place their human resources. These professional and training institutions are called body shoppers and these activities are known as body shopping. The body shopping is used mostly for computer professionals.

**(v) Business Alliances:** Business alliances like acquisitions, mergers, and take-overs help in getting human resources. In addition, the companies do also have alliances in sharing their human resources on *ad-hoc* basis.

There are ways to acquire talent beyond traditional recruiting. Acquiring "intact" teams and large numbers of talented people (with similar values) rapidly is possible by having HR "scout out" target firms and then recommending their acquisition just for their employees.

It does mean that, the MNC with surplus human resources offers the services of their employees to other needy MNCs.

**(vi) Tele-recruitment:** The technological revolution in telecommunication industry helped the organisations to use internet as a source of recruitment. MNCs advertise the job vacancies through the world wide web (www) internet. The job seekers send their applications through e-mail or internet. Alternatively, job seekers place their CVs in the world wide web/internet, which can be drawn by the prospective employers depending upon their requirements.

## Notes

**4.2 SELECTION**

Recruitment helps for identifying the sources of prospective employees and motivating them to apply for jobs. After obtaining the interest of the candidate to work with an organization, MNCs start the selection process.

Most of the MNCs used to follow the selection procedure based on the talents, job duties and job description as discussed earlier. (See Box 4.7). Majority of the employees of international firms normally are expatriates either parent country nationals or third country nationals. Expatriates, whether they are Indians working in USA or Chinese working in USA or Swedish working in USA, share a common bond and face more or less similar challenges. Expatriates work with the people of strange cultures, who respond differently for the same communication. They often communicate in foreign language and live in societies with rules and norms curious to them. They live as minorities in the foreign country. They are treated as outsiders even after several years of working in a foreign country. They think in their heart they are the citizens of their home country and most of them prefer to go back to home in due course.

**BOX 4.7: EMPLOYING THE RIGHT PERSON FOR THE RIGHT JOB IS NOT DISCRIMINATION**

*In the context of the ILO Conference currently sitting at the United Nations in Geneva and the discussion of the Global Report, employers reiterated – among other issues raised – the differences between discrimination and employing the right person for the right job.*

Not all differences in treatment are unlawful. For instance, those that are based on the actual requirements of a job are not. Distinctions based on skills or effort are just and legitimate; disparities in remuneration that reflect differences in years of education or the number of hours worked are also in order...

Daniel Funes de Rioja, IOE Executive Vice-President, speaking at the Plenary Sitting on behalf of the Employers Group also stressed that while employers fully endorse the principles of the Declaration, inequalities at work can often stem from discriminations that are rooted in cultural differences around the world and from country to country. Change must be determined at the national level according to each country's possibilities bearing in mind cultural and social sensitivities.

"Employers, in upholding the principles of the Declaration, are willing to contribute to reducing unlawful discrimination in the workplace, however, this needs to be part of a wider information campaign carried out in society at the national level bearing in mind these cultural differences," he said. "This is a cultural problem that cannot be ignored, when workers arrive at the

workplace it is already too late: the family, school and community have a key role to play."

**Note to Editors**

The Global Report is part of the follow-up of the ILO Declaration on Fundamental Principles and Rights at Work. The ILO Declaration on Fundamental Principles and Rights at Work declares that all Members have to respect, to promote and to realize the principles concerning the fundamental rights (freedom of association and the effective recognition of the right to collective bargaining; the elimination of forced or compulsory labour; the abolition of child labour; and the elimination of discrimination).

Each year the ILO Conference focuses on one of the fundamental rights cited.

The ethical guidelines proposed by three US bar associations for their attorneys will not have any adverse impact on the legal outsourcing services industry in India.

In fact, the opinions delivered by the associations legitimise the outsourcing of legal services to other countries and will lead to the market in India getting larger, according to Ram Vasudevan, president of SQ Global Solutions.

New York-based SQ Global Solutions is a joint venture between Strategic Legal Solutions, a 12-year-old US domestic legal staffing company and Quislex, a provider of offshore legal services in India. The

## Notes

company employs around 300 professionals, of which about 150 work out of India.

It may be recalled that three US bar associations — New York, California and Los Angeles — had in 2006 and early 2007 delivered opinions stating that offshoring of legal support work by lawyers in the US to other countries was ethical provided certain conditions are met.

“The guidelines state that US lawyers who are contemplating outsourcing legal services to other countries should inform their client that the work is being outsourced, besides protecting the client’s confidences. The US law firm should also be closely involved in the supervision of the outsourced work. In addition, the entity performing the work must perform conflict checks to avoid any unpleasant surprises,” Vasudevan told *Business Standard*.

He said most companies engaged in legal outsourcing work in India already adhered to the US ethical guidelines.

“Companies in India directly deal with the legal departments of US corporations and law firms for outsourcing work to avoid any issues of unauthorised practice and usually have several quality control metrics in place,” he said. For instance, SQ follows the Six Sigma process.

At present, there are around 15 companies in India that provide legal outsourcing services, with the prominent among them being SQ Global Solutions, Pangea and Mindcrest.

Though not mandatory, many US law firms and attorneys have been adopting the ethical guidelines and client demand too has been picking up.

This is expected to accelerate the growth of the legal outsourcing services industry in India in the years to come. The Indian legal outsourcing industry is currently pegged at \$130 million, and is expected to touch the \$4-billion mark by 2015, according to Forrester Research, he added.

Stating that there was no dearth of skilled professionals in India, he said there had been a drastic change in the education system in the country with law schools, of late, training students in general legal research using US databases and giving them exposure to the US legal system.

“These schools are creating abundant human resources that benefit the requirements of the Indian industry,” he said.

Currently, there are around 1,000 such professionals, both lawyers and non-lawyers, delivering high-end legal outsourcing services in India.

Source: [http://www.ioe-emp.org.preview11.net4all.ch/fileadmin/user\\_upload/documents\\_pdf/press\\_releases/english/pr\\_080607\\_globalreport.pdf](http://www.ioe-emp.org.preview11.net4all.ch/fileadmin/user_upload/documents_pdf/press_releases/english/pr_080607_globalreport.pdf) and [http://www.rediff.com/money/2007/jun/28legal.htm\(27/06/07\)](http://www.rediff.com/money/2007/jun/28legal.htm(27/06/07)).

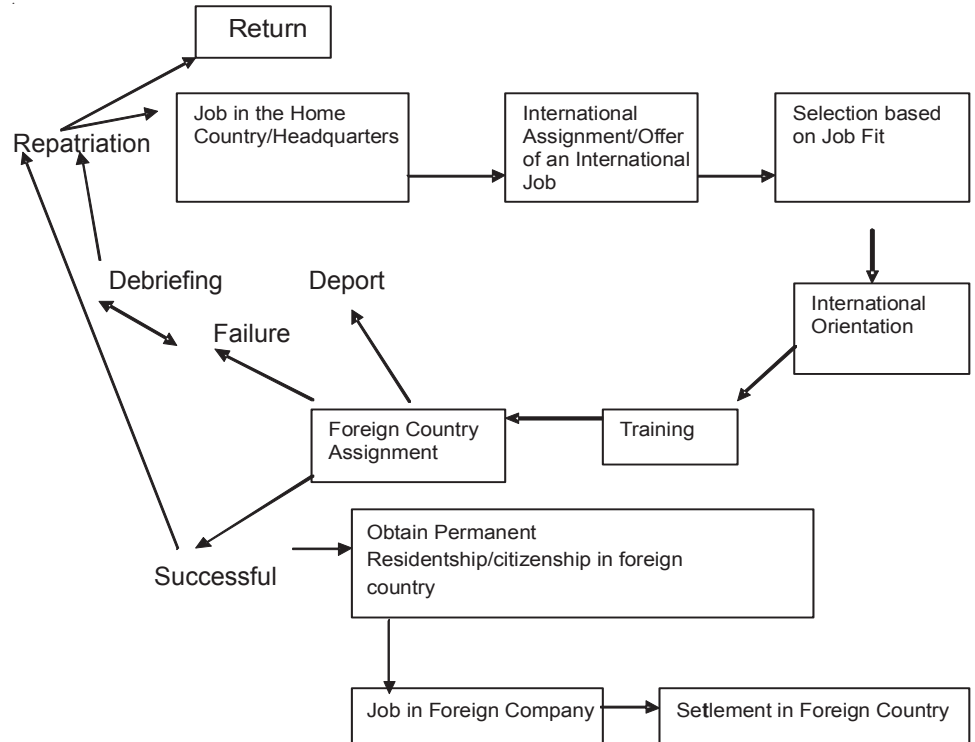
MNCs prefer expatriates owing to their skills, dynamism and link and network with different types of professional across the world. In fact, MNCs prepare parent country nationals to work in subsidiaries as they carry headquarters' culture to subsidiaries. The exited expatriate enjoy the foreign assignment. On the other hand, there is every possibility that the expatriate may find the experience too much to endure, the assignment may fail. The result is that both MNC and the expatriate suffer. Therefore, MNCs have to train the people well before the foreign assignment in order to excite the expatriate and increase his energy base to be successful. But, not many MNCs have undertook, the cultural and other areas of training in order to ensure the success of the expatriate. Now, we shall discuss the expatriate system.

### (1) The Expatriate System

Expatriates are vital for the growth of international business as they provide skills, talent, innovations, entrepreneurialism and knowledge transfer. In addition, they provide home country control over foreign operations, act as insiders in distant operations, and deal with externalities of global markets and foreign workforce. Expatriates with their core and distinctive job skills and talents, human and soft skills, motivational and commitment levels to serve a foreign country, acquiring foreign language skills and the abilities and talents of spouses to adjust with foreign environment

**Notes**

and co-operate make their assignments more successful. Thus, expatriates are a great value for MNCs due to the various attributes as presented in Table 4.1. MNCs strongly feel that parent country nationals have a sense of belongingness with the subsidiaries and take responsibility more or less voluntarily to contribute their skills, and dedication. However, parent country nationals sacrifice their conveniences and certain privileges including status and power, risking alienation from domestic activities, and leave their professional network, social network and social life at the home country. The expatriate system is different from an organization's domestic system. Expatriate system provides different career cycle based on international jobs/assignments.



**Fig. 4.6: Career Cycle for Expatriates**

Career stages of an expatriate in international career cycle are depicted in Fig. 4.6. Career cycle for expatriates deals with the sequence of jobs that employees must address when opt for a foreign job. Similarly, it also deals with the sequence of activities that MNCs must address when employing expatriates to fill the jobs in the subsidiaries.

**Career Cycle**

The career cycle begins with the identification of the best performers in the home country and offers him/her a foreign job in subsidiary company. Otherwise, the best qualified candidates with best performance record apply for a foreign job in foreign organizations. The foreign organizations select the employees based on the job fit. Foreign employees, bring the foreign experience background. Candidates having interest in foreign employment may have family responsibilities that present problems to MNCs. These problems include leaving the old parents at the stage when they need the assistance and care, disruption of spouses' career as well as social network and life, uprooting of children from schools and friends and de-linking his/her own professional and social network and life.



**TABLE 4.1:  
CATEGORIES OF ATTRIBUTES OF EXPATRIATE SUCCESS**

Notes

Job Factors	Relational Dimensions	Motivational State	Family Situation	Language Skills
Technical skills	Tolerance for ambiguity	Belief in the mission	Willingness of spouse to live abroad	Host country language
Familiarity with host country and headquarters operations	Behavioural flexibility	Congruence with career path	Adaptive and supportive spouse	Non-verbal communication
Managerial skills	Non-judgementalism	Interest in overseas experience	Stable marriage	
Administrative competence	Cultural empathy and low ethnocentrism	Interest in specific host country culture		
	International skills	Willingness to acquire new patterns of behavior and attitudes		
<p><b>Source:</b> Ronen, S. 1989, Training the International Assignee. Training and Career Development (1st ed.), San Francisco: Goldstein.</p>				

### Preparing for Foreign Assignment

The next stage involves preparing the employee for foreign assignment and family members for foreign orientation. These activities involve language training, foreign social and cultural orientation to employee and family members and job training to employee. The next stage is the foreign assignment stage which is crucial for the employee. They face new challenges of working in new organizations, in new jobs and with new colleagues that are different cultural, social and educational background. This stage is critical as the employees experience significant changes in their works and lives and adapting themselves at varying rates. Some employees are successful while some employees fail in adapting themselves to the work and/or culture of the host country. The successful employee work for the same company for sometime and then build his/her own career by joining other organizations in the same country or other foreign countries. However, a few of them settle down in foreign countries by obtaining citizenship, but most of such employees return to home country. These employees must readapt to their home country's economic, social and cultural environments.

### (2) Expatriates' Failure Situations and Rates

Most of the expatriate employees fail in the first foreign assignment either at the initial stage itself or at different latter stages either due to cultural shock or due to maladjustment with the host country's climatic, security and other environmental conditions or due to maladjusted with the job demands or with the behaviour of superior and colleagues and organizational requirements. For example, a Japanese employee could not adjust with his superior's management style in Toyota in Brisbane and returned to his country within three months of his assignment. Some employees return mostly after the expiring of the first contract. Expatriates failed in their foreign assignments are debriefed and repatriated to their previous job in the home country.

Some expatriates, even though they are successful on the job and adjust to the host country environment, return to home country due to the maladjustment of family members to the host country environment or due to health problems, non-availability

**Notes**

of high standard medical facilities, education facilities and entertainment facilities in the host country.

**Expatriate Failure Rates**

Failure of expatriate, whatever the cause may be, is a reflection of the failure of the MNC's selection policy, process and techniques of selection. Consequences of such failures include heavy cost, inconveniences, and cost of relocation and non-availability of the human resources at the right time in the subsidiary. It is estimated that the average cost per failure can be three times expatriate's annual domestic salary plus the cost of relocation. It is estimated that 16 to 40% of Americans sent to advanced foreign countries and 70% of Americans sent to developing countries return home from foreign assignments early. Failure rate of the employees belong to developing countries is relatively less than that of advanced countries due to the employees' ability and willingness to adapt to the foreign countries' environments. It is estimated that the cost of each failure varies between \$250,000 and \$1 million. In addition, it is estimated that 30% to 50% of American expatriates with an average annual salary of \$250,000 continue in their foreign assignments, but are considered as either ineffective or marginally effective on their jobs.

R.L. Tung surveyed a number of US, European and Japanese MNCs. The survey indicates that 76% of US multinationals experienced expatriates failure rates to the tune of 10% and more and 7% of the MNCs experienced a failure rate of more than 20%. The survey suggests that US-based MNCs experience a much high expatriate failure rate than those of European and Japanese MNCs.

Table 4.2 presents expatriate failure rates as observed by R.L. Tung's survey.

It is further estimated that failure rates of USA and Canadian expatriates have been between 25% and 40% in case of assignments in advanced countries and it has been as high as 70% in case assignments in developing countries. Expatriate failure rates have been as low as 3% in case of Swedish companies, 14% in case of French companies and 10% on an average in case of all European companies. Japanese companies' expatriates' failure rate was estimated at 5%.

**TABLE 4.2: EXPATRIATES FAILURE RATES**

<b>Recall Rate Percent</b>	<b>Percent of MNCs</b>
<b>US Multinationals</b>	
Less than 10%	24%
10% - 20%	69%
20% - 40%	7%
<b>European Multinationals</b>	
Less than 5%	59%
6% - 10%	38%
11% - 15%	3%
<b>Japanese Multinationals</b>	
Less than 5%	76%
6% - 10%	10%
11% - 19%	14%

*Source:* R.L. "Selection and Training Procedures of US, European and Japanese Multinationals," California Management Review, pp.51-71.

Now, we discuss why do expatriates fail in their foreign assignments?



## Why Expatriates Fail?

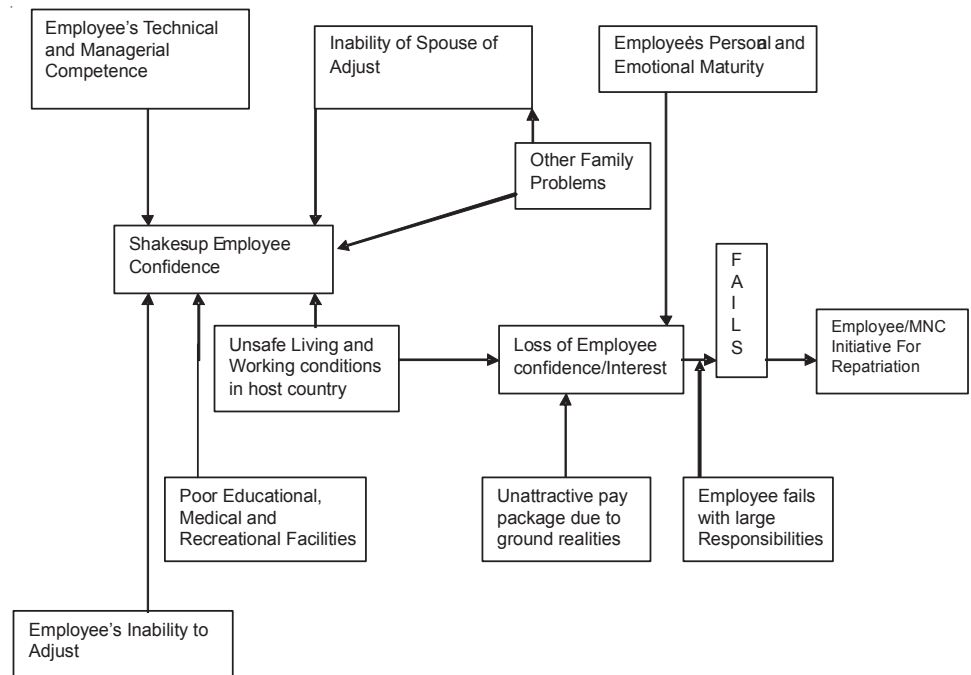
## Notes

There would be several reasons for the failure of the expatriates in their foreign assignments. The Board reasons include:

- Inability of spouse to adjust to foreign environment
- Inability of employees to adjust
- Other family Problems
- Employee's personal or emotional maturity
- Inability to cope up with larger overseas responsibilities
- Difficulties with new environment
- Absence of educational, health and recreational facilities in host countries
- Lack of technical and job related competence
- Unsafe living and working conditions in host countries.

Fig. 4.7 depicts the process and factors that contribute to the failure of expatriates. A number of studies have consistently confirmed that the inability of the spouse to adjust, the inability of the employee to adjust and other family problems are the major factors that contribute to the expatriates' failure, in case of technically and managerially competent employees. Inabilities of the spouse to adjust are mostly caused by absence of social network, language problems, cultural variations and immigration rules with regard to spouse's employment. The problem of inability of spouse to adjust is further aggravated by other family problems, poor educational, health and recreational facilities and unsafe living and working conditions in the host country.

These problems alongwith employee's inability to adjust shakes up employee's confidence in foreign assignment. Further, some employees may not possess technical and managerial competence as needed by the foreign job and also lack emotional stability. These problems shake-up employee's confidence during the initial stage of foreign assignment. Other factors influence much in case of technically and managerial competent employees. Added to this, unattractive pay package due to higher income tax rates in some countries, high cost of living in the host country and exchange rate fluctuations also reduce the employee's interest in foreign assignment. Poor medical and health facilities, recreational facilities and social networking upset the employee's career goals and dreams. Consequently, employee fails in discharging the larger and varied responsibilities in the foreign company. Ultimately, employee feels that he failed in delivering goods and attribute the reasons to the convenient factor, i.e., spouse's inability to adjust to host country factors and decides to leave for his/her home country. Otherwise, the MNC repatriates the employee due to his/her poor performance.

**Notes**

**Fig. 4.7: Factors Contributing to Expatriate's Failure**

Now, we discuss these factors contributing to the failure of the expatriates, in detail.

### **Lack of Technical and Managerial Competence**

Technical and managerial competency requirements vary from job in parent company to jobs in subsidiaries in host countries due to variations in technology, quality levels, job design and structure, manufacturing/operations process and human relations dynamics at the work place. The employee who is successful on job in parent company need not be successful in a subsidiary/foreign country due to these job variations. Therefore, employees selected based on the domestic job performance/competence, may fail unless adequate training is provided and employee adapts to the foreign work environment. Technical and job related competence is the core aspect of a job even in foreign assignments.

The root-cause of the failure of expatriates is lack of technical and managerial competence of the foreign job.

### **Employee's Inability to Adjust to Organizational Climate**

Organizational climate and culture of subsidiary would be different from that of the parent company. Similarly, organizational climate of domestic companies vary significantly from that of the foreign companies. Sometimes what is the best in the domestic company would be the worst in the foreign company including organizational systems, methods and practices. Therefore, employee should unlearn some the practices of domestic company wherever and whenever necessary and learn the systems and practices of the foreign company. This is more applicable for cultural aspects. Employees fail to do these, find vital maladjustments and create mental blocks and refuse to adjust. This type of employee behaviour is taken as a serious weakness of the employee by the management of the foreign company. Employee at

this stage would encounter shocks from the organizational cultural as well as organizational systems and practices.

## Notes

### Employee's Personal and Emotion Immaturity

Employees with wider experience of working in a number and variety of companies and countries develop personal and emotion maturity. Added to this, the personal characteristics of employees like broad mindedness, mental stability, emotional intelligence and balance do also influence the level of employee's emotional maturity. Employees with broad mindedness, and higher order emotional maturity understand the people, culture and organizational environment and behave accordingly, and the *vice-versa* is true in case of personal and emotional immaturity. The immaturity of employees further shakes the management confidence in employee and employee confidence in foreign job.

### Unattractive Pay Package

Candidates accept the offer of employment without having complete knowledge of the ground realities in the host countries. Employees experience high income tax rate, high cost of living and other ground realities after a few months of their arrival in the host country. Added to this, fluctuations in foreign exchange rates reduce their savings or financial gains from the foreign assignment. Then they realize/recall their sacrifices at the home country and compare these sacrifices with the financial gains. They prefer to go back to home country, if the sacrifices at the home country weigh more than the gains at the host country. Foreign assignments in USA for Indian software professionals have become less attractive as US \$ became weak against Indian Rupee (on an average 1 US \$ = ₹ 38 in 2008 and it was ₹ 46 in 2003). (See Box 4.8).

#### BOX 4.8: RISING RUPEE: IT, BPO EMPLOYEES MAY HAVE TO WORK LONGER

The appreciation of the Indian rupee against some currencies, especially the US dollar, has come as good news for many, but for those in the BPO and IT sector, it means no more Saturday night partying.

Several IT and BPO firms in Bangalore have decided that their employees will have to work on Saturdays too in order to counter the negative impact of the appreciating rupee.

While IT firms are toying with the idea of working on Saturdays, those working in the business process outsourcing sector may have to put in an hour extra everyday at work.

The BPO firms work all seven days of the week. On an average, BPO employees put in 40 hours every week. However, now with revised working hours, an employee would have to put in 50 hours a week.

Whether the employees would start the shift early or end late has not yet been decided.

BPO employees are, however, not happy with the idea and say that this will only add to work pressure. They argue that this move is unfair as they were not allowed to relax when the rupee was not so strong.

Says Santhosh Sharma, a BPO employee, "It seems as though we would have to put in extra working hours at the end of the shift as starting early will make no sense."

The IT and BPO sector, however, says that this is inevitable and employees will have no choice to put in extra working hours. Infosys Technologies' chief mentor N. R. Narayana Murthy said that the currency changes are beyond the control of the IT industry and the industry has to look at ways to increase productivity.

A source said that most IT and BPO firms are in discussion with their clients to rework billing rates. This would have to be reworked to accommodate every extra hour put in by the service provider.

**Notes**

Sharat Kapadia, an IT consultant, said that currently there are five working days for the employees in the IT sector. However, now that could change. Employees may have to work at least 10

hours on weekdays and six hours on Saturdays.

The employees will surely be paid extra, he added.

Source: <http://www.rediff.com/money/2007/jul/20bpo1.htm>(Accessed on 21/0707).

**Poor Educational, Health and Recreational Facilities**

Availability of internationally standard educational facilities at reasonable cost in host country makes the employees' children and spouse satisfied with their career goals. Availability of good health facilities at less cost makes the employee and his family feel secure from the health contingencies. Similarly, availability of recreational facilities in the host country engages the employee's spouse and children and not bothering the employee from spending more time with the family members. Contrary to this, the poor educational, health and recreational facilities in the host country make the employee and his/her family to think of their home country. Added to this, employee has to spend significant part of his/her time to engage the family members, which reduces employee job performance. Otherwise, if the employee spends less time with the family, under such circumstances, employee's spouse may fail to adjust to the host country environment. In fact, poor educational, health and recreational facilities also affect the employee directly resulting in loss of employee's confidence in foreign assignment as well as reduction in the performance.

**Unsafe Living and Working Conditions**

Living and working conditions in some countries are quite unsafe. These conditions influence employee as well as his/her spouse and children. Therefore, employee would be under direct and indirect influence, which reduces employee's confidence in foreign assignment.

**Family Problems**

Various studies indicate that this is one of the major problems for expatriate's failure. Employees' family problems at home like old parents, and other dependents, social and family events, customs and traditions to be performed influence the employee and his/her spouse to think of repatriating to home country. These family problems result in loss of employee confidence in foreign assignment.

**Inability of spouse to Adjust**

Employee's spouse sometimes fails to adjust to the host country's environment like culture and climate. Added to these, poor educational, health and recreational facilities and other family problems along with unsafe living and working conditions in the host country aggravate the problem of spouse adjustment to the host country's environment. Spouses fail to adjust to a foreign country's environment due to:

- Lack of familiar social network of family and friends;
- Language differences that make difficult of developing new friends and network;
- Feel of tapped at home;
- Immigration rules that inhibit the spouse to take up part-time employment;
- Cultural variations;

- Poor educational, health and recreational facilities at the host country;
- Unsafe living and working conditions in the host country;
- Development of dual career family groups at home and inability of one of the spouses to get employment in the same city of the host country.

**Notes**

One study indicates that 49% the spouses were employed in the host country before commencement of foreign assignment of an expatriate employee and only 11% were employed during the assignment. Another study indicates that main reason for turning down of foreign assignment has been due to spouse's career at home.

One study found that lack of spouse's satisfaction is responsible to the tune of 22% of expatriates' failure. Thus, the failure of spouse's adjustment greatly affects the employee's job performance and behaviour and forces him/her to decide to leave for home country.

**Employee Fails with Larger Responsibilities**

Responsibilities in a foreign company sometimes are wider, and deeper. Employees with competency and family related problems in foreign countries fail to discharge large responsibilities. This, along with other issues disappoints the management of the foreign company as well as the employee concerned.

**Implications**

These factors affect employee's family directly and employee both directly and indirectly to conclude that home country assignment is better than foreign country's assignment. Similarly, management of foreign company gets disappointed over the performance of the employee. Influence of these factors result in repatriation of expatriates.

Expatriate failure, according to a HRM management consulting firm, is because of flaws in expatriate selection process. "Expatriate assignments rarely fail because the person cannot accommodate to the technical demands of the job. Typically, the expatriate selections are made by line managers based on the technical competence. They fail because of family and personal issues and lack of cultural skills that haven't been part of the selection process."

**(3) Selection Techniques**

MNCs as well as domestic companies hiring foreign employees should use different selection techniques rather than those selection techniques used for selecting nationals for a job assignment in the domestic company or using domestic job performance rates. (See Box 4.9). It is established in a research study conducted by Mendenhall and Oddou that domestic performance and overseas performance potential is not the same thing. In other words an executive who performs high in domestic environment may fail in adapting to different cultural set-up and different systems and practices.

Various research studies suggest the following selection techniques for overseas employment in order to minimize the rate of expatriate failure. They are:

**Notes**

- Self-orientation
- Orientation towards others
- Ability to perceive accurately
- Cultural variations
- Technical and managerial competence
- Adaptability
- Age, experience and education
- Spouse educational background, interests and adaptability
- Achievement motivation and leadership
- Family status
- Language
- Strong desire to transfer knowledge and skills
- Positive attitude.

Now, we shall discuss these selection techniques.

**Self-orientation**

Self-orientation includes self-esteem, self-confidence and mental well-being. Mendenhall and Oddou found that expatriates with high self-esteem, self-confidence and mental well-being were able to adapt their interests in food, sport and music, had interests outside of work that could be pursued like hobbies and also were technical competent. These expatriates were successful in their foreign assignments. Therefore, MNCs should develop tests or instruments to measure candidate's self-esteem, i.e., urge for recognition and achievement, self-confidence, i.e., confidence over one's own abilities, skills and competence and mental well-being, i.e., emotional stability and intelligence. Compulsive rather than impulsive people are mentally and emotionally balanced. MNCs should prefer the people with higher scores in these three areas.

**BOX 4.9: A HANDY TOOL TO TEST HUMAN PERFORMANCE****Psychometric testing enables the selection of right candidates**

"Psychometric profiling helps in assessing the behavioural traits which can be critical for the success of an individual in a particular role."

**Growing segment**

Research by SHL shows that fewer than 18 per cent of Indian companies deploy these tools, while as many as 85 per cent do so in Belgium, 60 per cent in the United Kingdom and 75 per cent in the Netherlands. Though the number in India is small, Mr. Pandit says it is gradually increasing. SHL's clientele in India has grown from a mere six companies in 2003 to 250 today. The most widely used tool and the flagship one of SHL is the occupational personality questionnaire (OPQ32). On the cost of these tools, he

says it depends on the type of tool being used. It can vary. The average could be around ₹ 1,500 per person. In case an assessment centre methodology is used, the cost can be anywhere between ₹ 30,000 and ₹ 50,000 per person.

The Global Head (Human Resources) of iGATE Global Solutions, Srinivas Kandula, is of the view that "psychometric testing is not an essential aspect but a desirable method to use in processes like recruitment and development of people, to ensure that the right people are given the right jobs. For example, the behavioural traits required for sales personnel will be qualitatively very different from that of a person playing a role in a delivery function (or) HR (or) quality. "Psychometric profiling helps in assessing those behavioural traits, which can be critical for the success of an individual in a particular role," he says.

**Notes**

However, Bhaskar Das, Vice-President, Human Resources, Cognizant Technology Solutions, says that psychometric tests are useful tools to measure various aspects of human performance, behaviour, motivation and other personal qualities. The profiles generated on the basis of these tests provide a valuable insight into the potential and mindset of individuals.

**Accuracy questioned**

Though many companies use these tools, they are not cent per cent accurate. "The best of instruments with proven reliability and validity were seen to be about 70-75 per cent successful in predicating the behaviour of an individual at job. Selecting a candidate entirely based on the results of a psychometric tool may not be the right approach. Similarly, the linguistic factors can also influence the results to an extent. In case if these factors are not given due consideration, the results may turn out to be counter productive," says Mr. Kandula.

If one could say that these tools would pick the right talent pool, why then is there a high attrition rate in industries especially

in IT and other service sectors? Mr. Kandula feels that results shown by a tool and attrition are not necessarily correlated. "Attrition is a result of multiple factors affecting an individual performing a job. It is unfortunate that the "industry does not have a tool yet that can predict the stability factor in an individual," he says.

However, companies recruiting a large number of freshers have no other recourse but this given the fact that they have to select people by hundreds and in multiple locations, feels Mr. Divakar Kaza , Founder Director of Track2 Management Consulting. He finds this a "reasonably" reliable way of narrowing down their choices. How legally valid are these tests? Both predictive tests and ability tests are valid and used globally by large corporations. In the U.S., a formalised legislation is in place to govern the way in which the psychometric tests are conducted and used. However, the right to decide about undergoing a test lies with the subject. In India, though there is no formal legislation, the code of ethics for psychometric testing provides guidelines in administering these instruments.

Source: <http://www.hindu.com/biz/2007/07/23/stories/2007072350101600.htm> (Accessed on 23/07/2007).

**Orientation Towards Others**

Orientation towards others is of two dimensional, viz., relationship and communication. Relationship orientation is the ability of expatriate to develop and maintain long-lasting and friendly relationship with the host country nationals as well as expatriates from various countries.

Communication orientation includes the willingness of the expatriate to learn and communicate host country nationals in host country language as well as initiating communication with others, and exchanging necessary information freely. Expatriates will not be expected to speak fluently in host country's language. However, their willingness and effort to speak in host country's language would be appreciated as well as helps for building relation with nationals and adapt to the host country's environment and culture.

In addition, host countries' nationals tend to cooperate when expatriate speak in their language.

**Ability to Perceive Accurately**

Perceiving accurately helps us to understand the others from their view point rather than our view point. Perceptual accuracy would be possible when people view others through an open mind. Expatriates when they perceive host country nationals from their home country practices view point, develop a sense of cultural inferiority syndrome rather than understanding the host country nationals from their view point.



**Notes**

Expatriates to be successful in managing host country nationals or in interacting with them should have the ability to perceive accurately from host country nationals view point. Expatriates who do not have the ability to perceive accurately, treat the host country nationals as his/her home country nationals. This leads to conflicts and failure of an expatriate, which sometimes lead to deportation of expatriate.

For example, a Vietnamese worker could not respond to a query of South Korean manager, when the latter spoke in Korean in a South Korean textile company in Vietnam. The South Korean manager kicked and slapped the Vietnamese for his failure to respond. It is common for managers in South Korea to scold and beat employees, if they commit significant mistake. Thus, the South Korean manager perceived from his country's work culture view point rather than that of Vietnam. This resulted in Vietnam workers attacked the South Korean manager, and organized a strike. This ultimately resulted in deportation of South Korean manager.

Expatriates may experience serious problems and frustration, if they fail to perceive the host country nationals accurately. Starting time for most of the meetings in some Asia-Pacific countries would normally be at least 30 minutes after the scheduled time. Expatriate managers should understand this time sense from the host country point of view. According to Mendenhall and Oddou, expatriate managers to be successful in the host country should be non-judgmental and non-evaluative of the practices and culture in host country and be flexible and adaptable in their behaviour and management style, adjusting to them as cultural conditions warrant.

MNCs should measure the candidate's ability to view others from their point rather than from his/her own view point, and select employees who can perceive accurately cultural variations.

**Perception of Cultural Variations**

MNCs should consider the cultural variations between the expatriate's home country culture and host country culture. Advanced Western countries have more or less similar culture. For example USA and UK. Therefore American managers, when posted in UK, don't find it difficult due to similar cultures, language and availability of same type and standards of educational, health and recreational facilities. Similarly, the cultures of developing countries of Asia are more or less similar. Therefore Indian managers, when posted in Singapore or Thailand or Malaysia do not find it difficult to work, even though there is difference in language as similar problem exists in India as the language varies from one state to another state within India.

American managers find it difficult and tough when they are posted in developing countries like Brazil, India, China and Papua New Guinea. The reasons for this problem of cultural adaptability to the highly varied cultures include significant variation in cultures and poor educational, health, housing, transportation and entertainment facilities in developing countries. High degree of cultural variations results in the failure of expatriates. Therefore, organizations employing foreigners should consider the candidate for the host country having similar level of culture like his/her home country culture.

**Technical and Managerial Competence**

Technical and managerial competence of the candidate for the foreign job is one of the significant critical factors for successful job performance as candidate's ability



**Notes**

to deliver the expected goods depend on his/her technical and managerial competence. Most MNCs short list the candidates based on technical and managerial competence and other job related factors. They further evaluate these candidates in other areas like culture, emotional stability and other psychological factors. Thus, the base for selection even for a foreign job is technical and managerial competence. Most firms base their choices for international assignments on the candidate's technical expertise.<sup>25</sup> It was found by ORC Worldwide 2002 Survey that 72% of the responding firms selected employees on the basis of job skills mentioned in the job description.<sup>26</sup>

Expatriate failure in most cases may not be due to lack of technical and managerial competence as most of the firms selected in the study based on this factor. However, technically and managerial incompetent candidate would fail on the foreign job during his/her initial stage of the foreign assignment itself. For example, an oil refinery in Nigeria rushed its selection process during 1981 and selected the candidates based on 'resources' and a brief 'telephonic interview' without testing or verifying the technical competence. Nearly 20% of engineers could not deliver the goods and the oil refinery repatriated the employees back to their home country in the first three months of their assignment.

Assessing technical and managerial competence during the selection process helps the companies to select the best candidates for the job requirements. However, one should be cautious of the fact that those employees whose job performance ratings are the best in domestic setting need not perform the job at the same rating in a foreign setting due to variations in technology, organizational systems, managerial practices and customer requirements. Therefore, the companies should assess the technical and managerial competence and potentiality of the candidates based on foreign job requirements and work stations settings. This would serve two purposes, viz., selecting a candidate who would meet the job requirements and minimize the expatriate failures.

Factors of expatriates' failure indicate that all other factors also important in selection. However, initial selection in many foreign MNCs is made on the candidate's perceived ability to fill a perceived functional or technical need in the foreign operation. (See Box 4.10).

**BOX 4.10: MUCH NEEDED TALENT IN CHINA**

The service industry, as the third most important industry, will create more job opportunities. In addition, most skills with a touch of foreign influence are needed: international accounting skills, lawyers with international experience, and financial institutions with international contracts. Simultaneously, translators, insurance agents, digital media, logistics, and psychology and counseling, are also in demand. This demand for talent is expected to call for 3.25 million people.

Yang Haishan, deputy director of the Secretariat of the China Auto Talents Society (CATS), said that auto talents would be needed in the next five years, including automotive research and development talents, car-sales talents,

maintenance talents and management talents.

Du Yefu, professor at the Civil Aviation University of China, said that pilots, airline crew, air transport safety management personnel and professional maintenance skills are badly needed in the coming years. The integration of mechanical energy and electricity is a major trend in future global development. There are more than 200 jobs in this field offered in Beijing. It is said that the capacity for the integration of mechanical energy and electricity is the most necessary in China.

Insurance work, the most profitable careers today, needs 5,000 talents in the next five years.

**Notes**

With China changing into an aging society, professional medical services for elderly people will be necessary. Home health-care nurses and doctors are also needed. In addition, the demand for specialized personal nurses will increase.

In the era of the 11th "Five-Year Plan", domestically dependent industries and high-technology industrial development are constantly growing with the demand for new materials. In this context, skills for research and development of new materials will become a focus of attention.

Source: [http://english.people.com.cn/200706/01/eng20070601\\_380096.htm](http://english.people.com.cn/200706/01/eng20070601_380096.htm) (Accessed on 12/07/2007).

**Adaptability**

MNCs and organizations employing expatriates have to assess candidate's ability to adapt to host country's culture, and foreign company's organizational culture. Research studies indicate that managers initially are excited and respond favourably during their initial stage of foreign assignment. Most of the expatriates suffer from culture shock owing to large number of changes to which they are subjected. Expatriates adjust to the new culture within a year. Torbiorn found that the satisfaction level for expatriates reaches new heights and continue rising for those who stay overseas two or more years. It is also found that men adjust slightly faster than women and people above the age of 35 adapt at a fast rate than others.

MNCs evaluate the candidates with regard to their level of adaptability with the help of the following factors:

- Work experience with cultures other than one's own
- Previous overseas work experience in terms of duration of work and work in different cultures
- Knowledge of foreign languages
- Ability to solve problems with different frameworks and from different perspectives, and
- Overall sensitivity to the environment.

**Age, Experience and Education**

Young managers are dynamic and impulsive in decision-making while older managers have maturity of mind, emotional balance and compulsive in decision-making. Young managers are eager for international assignments, want to learn more about cultures and move from one company to the other, while the older people present a stable approach towards foreign assignment and also commit to one organization. MNCs in order to balance the strengths and weaknesses of both the groups, select young and seasoned personnel for the overseas assignments. This balances age composition as well as derives maximum benefit to MNC in addition to providing an opportunity to the young people to learn from the older employees. Therefore, MNCs should consider the age composition in their selections.

There is no universal rule with regard to educational qualification as some MNCs prefer college certificate with work experience, while some other MNCs prefer a graduate degree. Some MNCs prefer MBA degree for managerial positions, which some others prefer a bachelor degree with work experience. However, MNCs should consider the candidate's ability to think locally, develop creative and innovative ideas, broad perspective of the world and emotional intelligence in addition to technical competence.

**Health and Family Status****Notes**

MNCs screen the candidates based on the health of the candidate and accompanying family members. This factor is critically important for foreign assignments to developing countries where high quality medical and health facilities are not available. In addition, expatriates with physical and mental health problems can't meet the challenges of job assignments in foreign countries.

MNCs also evaluate the candidate's family status. Candidates with old parents, extensive family ties at the home country, sick relatives and kith and kin in the home country cannot adjust to the host country's environment and job needs and concentrate on the job due to the possible family contingencies at home. MNCs also evaluate other family obligations considerations like children's education and marriage obligations of the candidate as employees with acute family obligations may fail to perform the foreign job as expected.

**Spouse's Educational Background, Interests and Adaptability**

Though dictionary meaning of spouse is inclusive of both wife and husband, for most of the MNCs spouse means 'wife' only as most of the expatriate employees are 'men' and accompanying spouses are 'wives'. Women expatriate employees are a few and they are relatively young and unmarried. Husbands follow wives in foreign assignments are a few. Therefore, wives influence their husbands in accepting foreign assignment, in discharging their duties in foreign jobs, in creating stress or relieving from stress and in success or failure in the foreign assignment. MNCs, mostly, test the candidate's ability to adapt, but ignore the wives. Similarly, MNCs ignore wives and children in providing orientation training.

**Educational Background:** Educated wives can also work in foreign countries either in the same MNC or in other companies. If the MNCs manage the information about educational qualifications and background and job interests of wives, they can help them in getting a job. This facility would help the wives to find more productive use of their time in a foreign country, and influence their husbands positively on their job rather than becoming a cause for the failure of their husbands. But, most of the MNCs fail to providing orientation training to wives and evaluating the wives' educational background and interests in order to help them in job search.

This oversight on the part of MNCs in their selection process creates dislocation in the family responsibilities as working wives in their home country have to suddenly leave their jobs and become dependents on their husbands by sacrificing their careers. Wives without much activity in a foreign country develop a feel of 'house arrest' and need more attention of their husbands. A few MNCs help wives in getting employment either in their own organization or in other organizations.

**Adaptability:** In addition, MNCs should also evaluate as well as assist wives with regard to their adaptability to foreign cultures and environments. Effective selection techniques should include evaluating and assisting wives. Research studies found that only 5% MNCs provide support and orientation, evaluation and training for wives. MNCs like GE, AT&T, Monsanto, Eli Lilly & Co., ABB and Intel provide comprehensive programs for family members. Programs of these companies include evaluating wives and children along with the candidates through group interviews and providing orientation

**Notes**

and training for family as a whole in which family issues are also addressed. These companies believe that the foreign assignments should serve the interests of the company as well as the family.

**Select a Family, not Just an Employee:** MNCs, therefore, should select an appropriate family rather than just an appropriate employee in order to prevent the failure of expatriates owing to the failure of spouse to adapt to foreign cultures. Appropriate selection approach should concentrate on the benefits to entire family including employee's career, wives' career and social needs and children's education in addition to the benefit to the company.

**Achievement Motivation and Leadership**

Employees in their international assignments are expected to make significant and creative contributions compared to national employees. Therefore, MNCs should select the candidates who are strong in achievement motivation with a strong desire and potentialities to achieve. MNCs, therefore should evaluate the candidate's potential desire, skills and commitment.

Motivational factors include:

- Desire for adventure;
- Pioneering spirit;
- Desire to enhance career chances;
- Opportunity to improve economic status; and
- Desire to be distinctive from others.

**Leadership Potential:** Candidates should also be evaluated based on their leadership potential as most of the expatriates are expected to play various leadership roles in their foreign assignments and developing the junior national employees as a mode of building up national human resources. Leadership potentialities can be evaluated based on

- maturity,
- emotional stability,
- dynamism,
- ability to communicate effectively,
- independence,
- initiative,
- willingness to develop and
- transform others.

**Status of Expatriate Employees**

However, research studies found that most of the expatriate employees are:

- Unmarried and young people;
- Married couples without children;
- Married coupled with non-teenage children;

- Desire to work as an expatriate in a foreign setting;
- Individuals committed to their professional careers;
- Positive attitude of wives towards the career of their husbands;
- Strong need for improving the economic status and thereby social status; and
- Family Status.

**Family Status:** Family status of the candidate need to considered and evaluated by the MNCs during the selection process. Candidates with large size of the family or with strong family relationship would face difficulty of working in a foreign country.

Strong relationship ties with grand parents and parents create a challenge to the employee to commit him/her to the job in foreign countries due to the formers health conditions etc. Similarly, employers with teenaged children and college/university going children do also pose a threat to the employee as they cannot accompany the employees due to non-availability of equipped colleges and universities in some countries or due to variations in the curriculum. Such employees always think of children staying in the home country.

Employee faces different challenges, if spouse and children accompany him/her to the foreign country. These challenges include housing, schooling, transportation shopping, medical and health, entertainment, employment of servants, adjustment of family members to the host country environment and obtaining and renewing dependent visas etc.

Therefore, if all other things are taken for granted, MNCs can prefer:

- Unmarried young people
- Married young couple with no kids
- Married young couple with young kids.

Employees of these three categories are innovative, enthusiastic, fresh from universities/college and free from family responsibilities. They would be much appropriate for lower level managerial/technical jobs. Most of the software professionals working in various MNCs are of these categories.

**People around 50 years of age whose children are grown up, independent and working:** Normally, employees of this age group including their spouses are free from most of the family responsibilities and comparatively adjust to the foreign environment. Employees of this category possess personality attributes like emotional stability, judgmental, and relationship-oriented. This group of employees is more suitable for top level managerial and technical positions.

MNCs, however, sometimes can't select employees only from the categories mentioned above. Therefore, MNCs should plan for various facilities in foreign countries, required based on family status of employees like housing, medical, educational, social networking, recreation, annual leave and emergency leave etc., and consider them in the selection process. Thus, the family status is a critical factor in expatriate selection process.

**Notes****Language**

Language is a vital factor in both written and oral communication, information processing and knowledge management aspects of working in MNCs and other foreign organizations. The language would differ from country to country except in those English speaking countries and a few French spoken countries. Language may also differ between the parent country and host country. Hence, MNCs evaluate the candidate's ability in the language used by the parent company as well as subsidiaries in their selection process. MNCs prefer, the candidates who are familiar with the knowledge in parent company's language as well as host country's language as such candidates can communicate with parent company employees with regard to all kinds of business activities. Lack of fluency in the parent company language would hinder the employees' communication process.

Therefore, MNCs select the candidates who are fluent in both the corporate/parent company language and subsidiary company language/host country language for smooth and effective communication as well as easing the transfer of employees between parent company and subsidiary.

**Strong Desire to Transfer Knowledge and Skills**

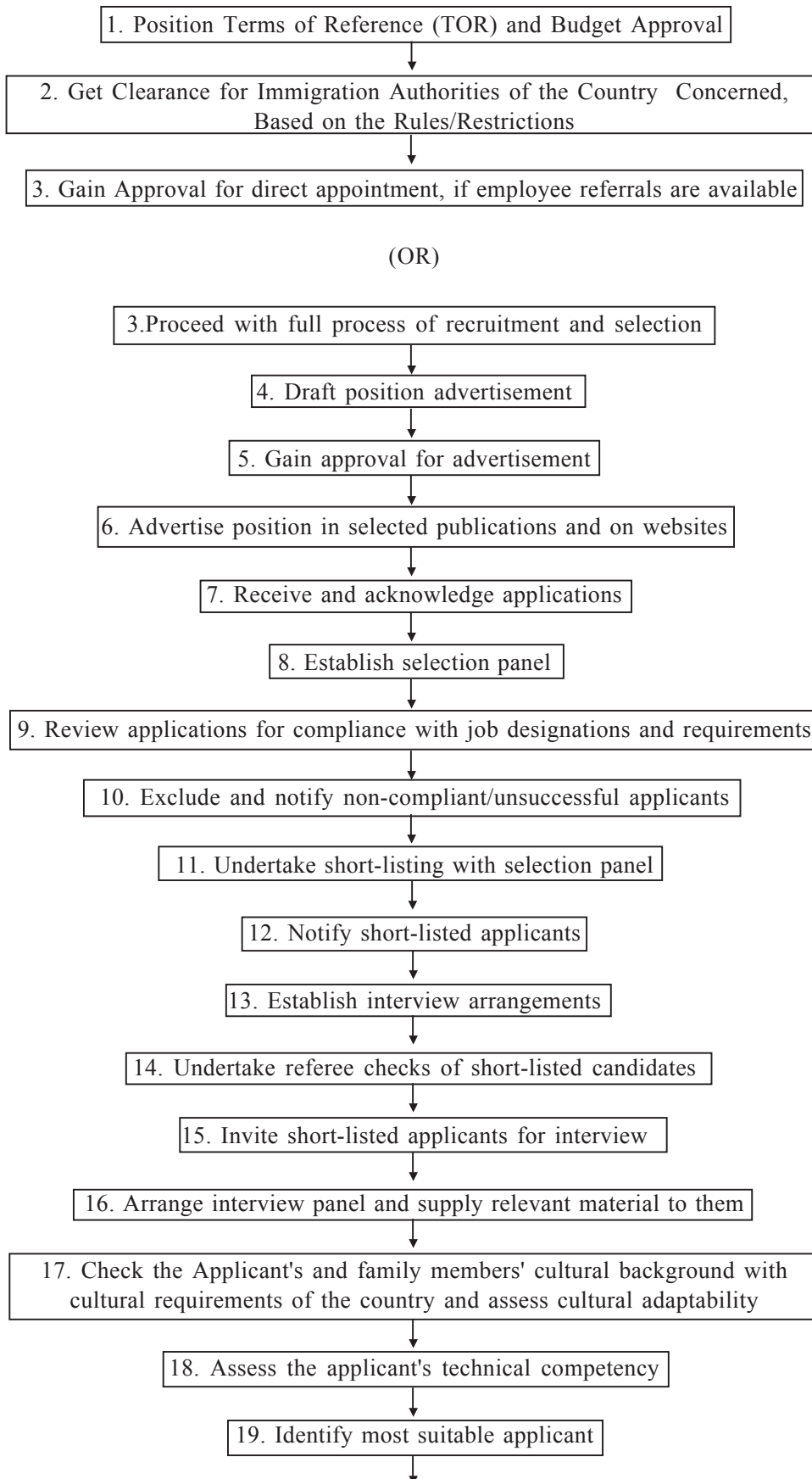
Employees with a strong desire to transfer their knowledge and skills particularly to the employees in developing countries create stability in international assignments. Such employees enjoy work, culture and foreign environment by transferring their skills and knowledge and thereby develop the human resources, particularly in developing countries. These employees adapt themselves to the foreign culture and environment at a fast rate as they consider the issues and conditions in foreign countries from positive and tolerant attitude. These employees also encourage their family members to view the culture and environment positively and adapt to the foreign environment.

**Positive Attitude**

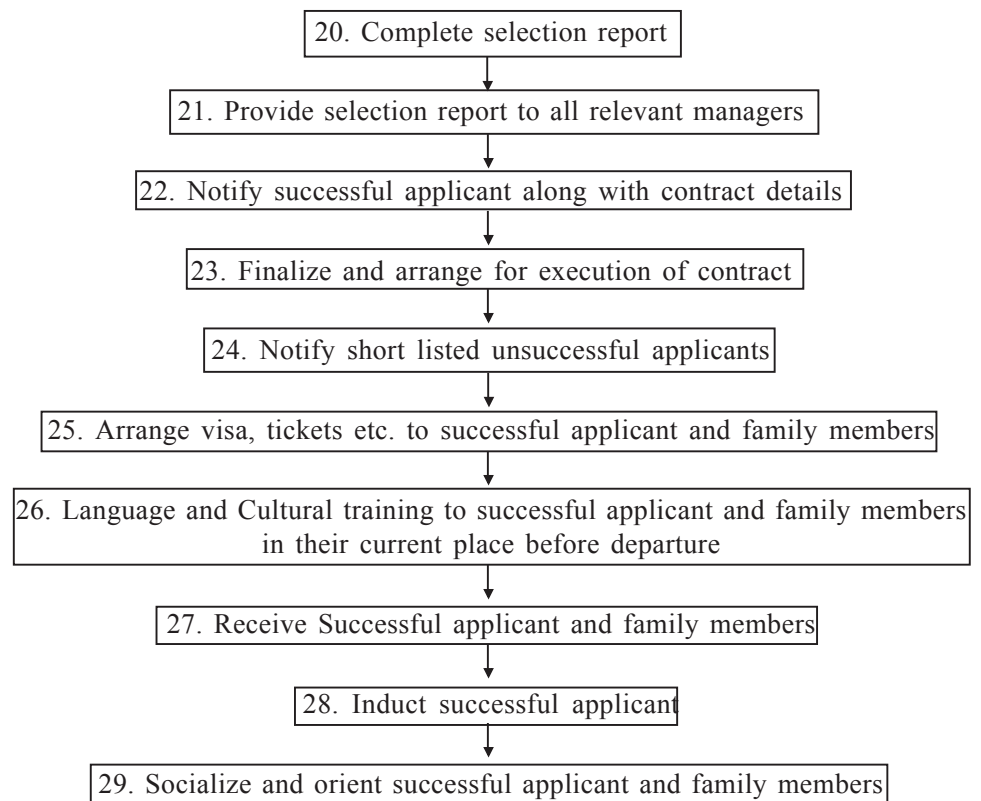
Attitude of an employee influences significantly his/her job performance, ability to maintain sound human relations with others, willingness and thereby adaptability towards organizational culture and country's culture, and most of such other factors related to foreign assignment. Hence, MNCs should test the candidate's attitude towards the foreign country, people, the company and the job in their selection process.

**Conclusion**

Though the recruitment and selection variables in MNCs vary compared to that of domestic companies, the basic selection procedure set for domestic companies with certain modifications can be followed in MNCs. Recruitment and selection process in MNCs as well as domestic companies employing expatriates would be as follows:

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### 4.3 TYPES OF CROSS-CULTURAL TRAINING

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The term “cross-cultural training” refers to a variety of different training courses. Each in essence aims to develop awareness between people where a common cultural framework does not exist. In general, cross cultural training has two parallel strands – cross-cultural awareness training and culture/country specific training. Cross-cultural awareness training deals with the manifestations of culture in the workplace and has many applications. Its main purpose is to evaluate and constructively tackle the challenges cross cultural differences can bring to the workplace. When organisations become cross-border entities, cross-cultural factors start affecting every aspect of the business. Whether in multi-cultural teams or in business interactions, the variants of cultural nuances eventually end up affecting the business. Cross-cultural training is conducted by many Indian IT organisations to equip their employees with skills to do business in a global environment. But there is much more to cross-cultural training than a crash course in etiquette or learning how to order a five-course meal; it is about a deeper understanding of the values and ethos that define a culture. However, this starts by understanding one’s own culture and then graduating to understanding and appreciating the differences of another. Misinterpretations and misconceptions are common when the same situation is viewed differently by people from different cultures. The basis of inter-cultural relations are not about changing other people, but adapting oneself to another culture. In India, while earlier the focus was on training professionals working with software companies on international assignments, today it is an integral part of BPO culture for those personnel who have to interact with overseas clients.

**Notes**

Cross-cultural training can be divided into three categories—education, actual training and coaching. Explains Stephen Martin, president of ITAP Europe, which provides cross-cultural training and consulting to many organisations worldwide, “Education helps managers understand how cultures affect them as individuals. Training is conducted looking at the way companies manage their workforce. It focuses on different ways of management in different countries. Next follows the coaching stage which includes consulting, including that for particular projects.” The whole process gets more complex when it involves integration of more than two cultures, which is a common occurrence in global organisations today. For instance, take the case of an Italian manager of an American company working with an Indian workforce. Even the way cross-cultural training is imparted differs from country to country. Technology can be an enabler or a barrier.

The cross-cultural training should have components related to both general orientation and specific skill development (Harrison, 1994). The component of general orientation here consists of self assessment (dealing with change, stress management and identifying attributes) and cultural awareness (general dimensions, national values and work place incidents). The specific development on the other hand consists of knowledge acquisition (area studies, language studies and host attitudes) and skills training (case studies, area simulation and behavior modeling). Hence, the training should focus on providing trainee the knowledge about national cultures and attitudes in the host country in the first phase while in second phase the trainee should be made to go through a rigorous process of handling the situations in a simulated environment. This will help the trainee to acquire hands-on experience. The paper by Nicola (1993) suggests following issues for cross-cultural training:

- Feedback
- Getting beyond culturally determined stereotypes
- How to raise and deal with cultural stereotype
- How to counsel employees
- Coaching and team building
- Resolving conflicts (those including various ethnic groups at work place)
- Counseling so as to go beyond all kinds of stereotypes and perceptions.

After the internet revolution things have vastly changed for various organizations. For example many firms use internet as a medium to coordinate between different employees working in different locations as a team like one of the team members would be in India, other one might be in Europe and third one in North America. The group dynamics in these situations becomes very important; hence the employees must also be trained at handling people from diverse cultures at the same time ensuring equal treatment and opportunities for all. One of the most important factors that is often forgotten while designing the training programs is the requirement of the employees, the design of training program should be made keeping in mind the length of stay in the host country, type of function he will have to perform, degree of socialization required by the employee and the personal characteristics of the employees (extraversion, interpersonal skills etc.). Hence, cross-cultural training program should be customized for each employee to certain extend. It's not only the employee who needs to be trained; the family of employee should also be trained on certain issues

**Notes**

like cultural differences. Many firms have started giving due importance to the training of spouse because the socialization of expatriate and job success to a large extent will depend upon socialization of his family.

The various cross-cultural training methods can be explained as follows (as described by Bhawuk and Brislin, 2000):

1. **Cultural assimilator:** The cultural assimilator is a tool that consists of a number of real life scenarios describing puzzling cross-cultural interactions and expectations. The scenarios here can be defined as critical incidents which describe interactions between host and expatriates which involve misunderstanding related to cultural differences.
2. **Contrast American method:** This method involves demonstration of behaviors that are completely opposed to what is seen in the current context of culture. This was used by Stewart in America to train people going abroad hence was named contrast American.
3. **Self reference criterion (SRC):** Unconscious reference to one's own cultural values in communication with people who are from other cultures. This method was developed by Lee (1966), who proposed 4 step procedures to overcome self reference criteria. The first step involves defining any problem of situation in terms of the expatriate's own culture, followed by definition in the terms of host culture. The bias created by SRC is analyzed and removed in third stage which is followed by solution of the simplified business problem.
4. **Area simulation:** The simulation is creating natural situation of interaction with people from other culture. This can be achieved using some actors who will interact with the trainee according to some predefined script.
5. **Cultural self awareness model:** The cultural awareness model includes usage of video tapes with themes and role plays. If the trainee is able to understand how his culture is different he would be able to accept the differences encountered in the real life interactions in a better manner.

**Why Global Training?**

Transnational companies believe that their distinctive competency is determined by the mindset and talent of their human resources rather than by other resources/factors. As such TNCs and MNCs attract different categories of expatriates in order to acquire global talent. In addition, they also attract employees on long-term basis as well short-term basis as certain categories of expatriates possessing of critical skills prefer only short-term assignments.(See Box 4.11).

**Why Cross-cultural Training for Expatriates?**

As discussed, in earlier chapters, success of expatriates mostly depends on the cultural adjustment of expatriate employees and their family members to the host country's culture. In fact, most of the cases human resources failure in MNCs is owing to the failure of expatriates (parent country nationals as well as third country nationals). In fact, one of the critical reasons responsible for the failure of expatriate employees and their family members is the inability of expatriates to adjust to the host country's culture as well as the organizational culture of MNCs and their subsidiaries. This, cross-cultural adjustment is a critical factor in the global human resource management.

**BOX 4.11: TRAINING BRINGS COMPETITIVE ADVANTAGE**

**Notes**

<p>Competitive advantage for MNCs comes from the development of an organization's human capital: a learning experience for employees and the organization as a whole. For sometime, this learning experience was encapsulated within a particular model of training: a comparatively straightforward, organized function which depended heavily on planning. The systematic training model pervaded organizations so thoroughly as to be accepted as the received wisdom. According to Sloman (1994), this depended on a series of logical steps normally involving the following:</p> <ul style="list-style-type: none"> <li>● a training policy;</li> <li>● a method for identifying training needs;</li> <li>● the formulation of training objectives;</li> <li>● the development of a training plan;</li> <li>● the implementation of a planned training programme;</li> <li>● validation, evaluation and review of training and</li> </ul>	<ul style="list-style-type: none"> <li>● training to strategic initiatives.</li> </ul> <p>But this centralizing trend contrasts with a decentralizing approach to the delivery of training. There have been changes in responsibility in line with the growth of HRM, delayering and divisionalization. Increasingly, training is seen as the province of line managers, with specialist trainers being used as an internal consultancy resource.</p> <p>The new approach requires an effective communication system between the strategic decision-makers, line managers and specialist trainers. Together, these changes have made the traditional model of training management obsolete.</p> <p>The emphasis on decentralizing training has caused difficulties for trainers. As with many others in the former personnel-related area, they are seen more as facilitators and agents of change than as instructors. Trainers have experienced considerable uncertainty. They are more involved with strategic decision-makers but often have an unclear career path ahead of them.</p>
<p><i>Source:</i> <a href="http://www.hrmguidance.co.uk/hrm/chap11/ch11-links2.htm">http://www.hrmguidance.co.uk/hrm/chap11/ch11-links2.htm</a>.</p>	

**Why Cross-cultural Training for HCNs also?**

Cross-cultural adjustment is critical not only for the expatriates and their family members, but also for the host country nationals. Host country national interact with the expatriates both at the work settings as well as at the social settings. Host country national should understand at least a part of the expatriates' culture as the expatriates of different countries either exhibit or immersed in their culture while interacting with the host country subordinates or superiors or colleagues. In fact, expatriates have to understand and adapt to the host country's culture to a greater extent, but the host country nationals have to understand and adapt at least to the core cultural aspects of cultures of those countries from where expatriates are drawn up. Therefore, TNCs and MNCs have to exert their resources and energies in providing multi-cultural or cross-cultural aspects to all their HCN employees also, through cross-cultural training. Thus, cross-cultural training is distinctive imperative under global human resource management.

**Why Job Training?**

In addition to cross-cultural training, TNCs also provide training in technical and functional aspects of the job, though mostly expatriate possess them. This is mostly due to the changing technology as well as shifting job priorities, job description, specification, team specifications and varying systems and procedures in subsidiaries and headquarters. Added to this, host country nationals need to be trained in technical and job aspects from time to time. Therefore, MNC provide training in technical and functional aspects, though their magnitudes differ widely from that of cross-cultural training.

**Notes**

Now, we shall study the areas of global training.

**Areas of Global Training and Development**

Different categories of international human resources include parent country nationals, third country nationals and host country nationals. Parent country nationals and the third country nationals take-up the foreign assignments on long-run basis, short-run basis as well as ad hoc basis. Expatriates, who work on long-run basis as well as host country nationals, need to up-date their technical and functional skills in addition to acquiring cross-cultural skills. Human relations/soft skills are essential to all types of employees as they are basic for all group and team environments. Further, strategic management skills vary from country to country as they are significantly determined by the environment of the country concerned. Therefore, MNCs should provide strategic management skills irrespective of employee background in his/her home country. Thus, the areas of global training and development include:

- Technical training;
- Functional training;
- Strategic management skills training;
- Soft-skills training;
- Cross-cultural training;
- Language training;
- Pre-departure training;
- Expatriate training;
- Training for short-term assignments;
- On-the-job training assignments;
- Global mind-set training;
- Team training;
- Management development

Fig. 4.8 presents different types of training and development areas in international human resource management.

**Technical Training**

Most of the MNCs select the expatriates, mostly based on the technical skill background to perform the new job successfully. In fact almost all of the expatriate employees were best performers in their previous jobs. As such, most of the expatriates feel comfortable technically during the early days of their overseas assignments. But, they feel uncomfortable, on the job, when there would be significant shifts in technology in the long-run.

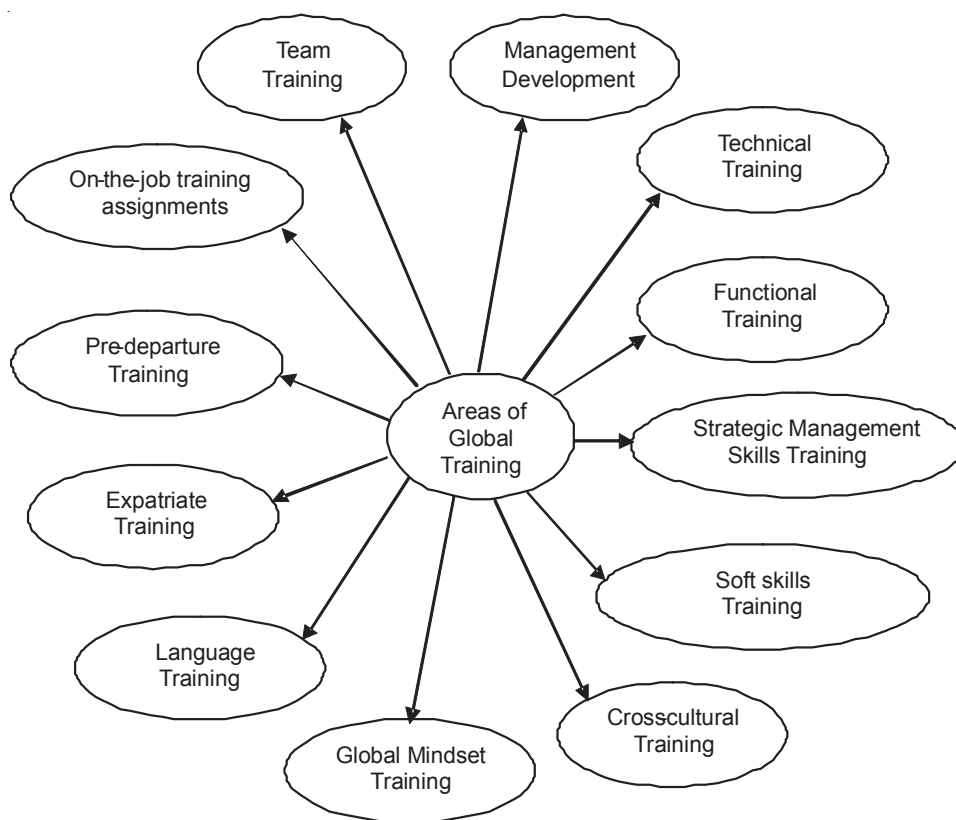
Most of the host country nationals need technical training as most of them join various MNCs without required technical skills. In addition, host country nationals need to upgrade their technical skills along with the expatriates who take up assignments on long-run basis. Thus, MNCs provide technical training to the host country nationals and to the expatriates who take-up long-run assignments as and when there would be technological developments.

**Functional Training**

**Notes**

Expatriates are employed in functional jobs like accountants, lawyers, lecturers, professors, production specialists, managers and sales personnel whenever and wherever there is shortage for such professions. Expatriates normally possess required functional skills before joining the MNC. But, such skills may not exactly suit to the functional job requirements. MNCs need to train the expatriates to provide such skills in order to plug such gaps. In addition, expatriates work on long-term basis need training at a latter stage as and when there would be changes in organizational structure, systems and procedures.

MNCs should train host country nationals in functional skills on continuous basis. Thus, MNCs provide functional training.



**Fig. 4.8: Different Types of Training and Development Areas**

**Strategic Management Skills Training**

MNCs prefer expatriates for strategic level positions in view of their exceptional skills initially. However, MNCs aim at developing the host country nationals even for strategic management positions, in due course. Strategic managers are core and critical managers of MNCs and they are viewed as critical strategic assets of the organizations. These employees have to acquire comparatively recent and competitive skills to be ahead of the customer expectations as well as competitors' moves. Therefore, MNCs train and develop these employees on priority basis in internationally reputed institutions. Though the expatriates possess certain strategic management skills, MNCs still train and develop them in view of the significance of these positions.

**Notes****Human Relations/Soft Skills Training**

Human relations skills or soft skills refer mostly to interpersonal skills like interpersonal communication, leadership skills, motivational skills, commitment skills, transactional analysis, team building and skills of working in teams, emotional balance skills, skills of influencing others, social skills and the like. These skills' requirement and response of the host country employees to the soft skills of expatriates vary from one category to other category of employees.

MNCs train both expatriates as well as host country employees in all kinds of soft skills in order to enhance the human relations skills of managers under multi-cultural environment.

**Cross-cultural Training**

Cross-cultural Training is most significant and critical one among the areas of global training. Therefore, most of the MNCs follow the training procedure systematically to conduct cross-cultural training. MNCs follow different approaches to train expatriates, nationals of the subsidiaries and employees of joint venture partners.

**Who are the Trainees for Cross-cultural Training?**

The quick response to this question is all kinds of expatriates. But, the cross-culture is emerged out of the interaction among all cultures from which all categories of employees including HCNs are drawn up as well as that of other stakeholders. All categories of employees have to adapt to the others' culture in order to interact and work with them efficiently. Therefore, all categories of employees need to be provided with cross-cultural training for cultural adaptability. Thus, the trainees of cross-cultural training include:

- Parent country nationals,
- Host country nationals of subsidiaries
- Third country nationals
- Other kinds of expatriates
- Employees of all partners of joint ventures.

Thus, all kinds of employees need to be training, in cross-cultural training.

**Process of Cross-cultural Training**

MNCs follow detailed process in cross-cultural training due to its vitality in global human resource management. Fig. 4.9 presents the process of cross-cultural training.

The process of cross-cultural training include:

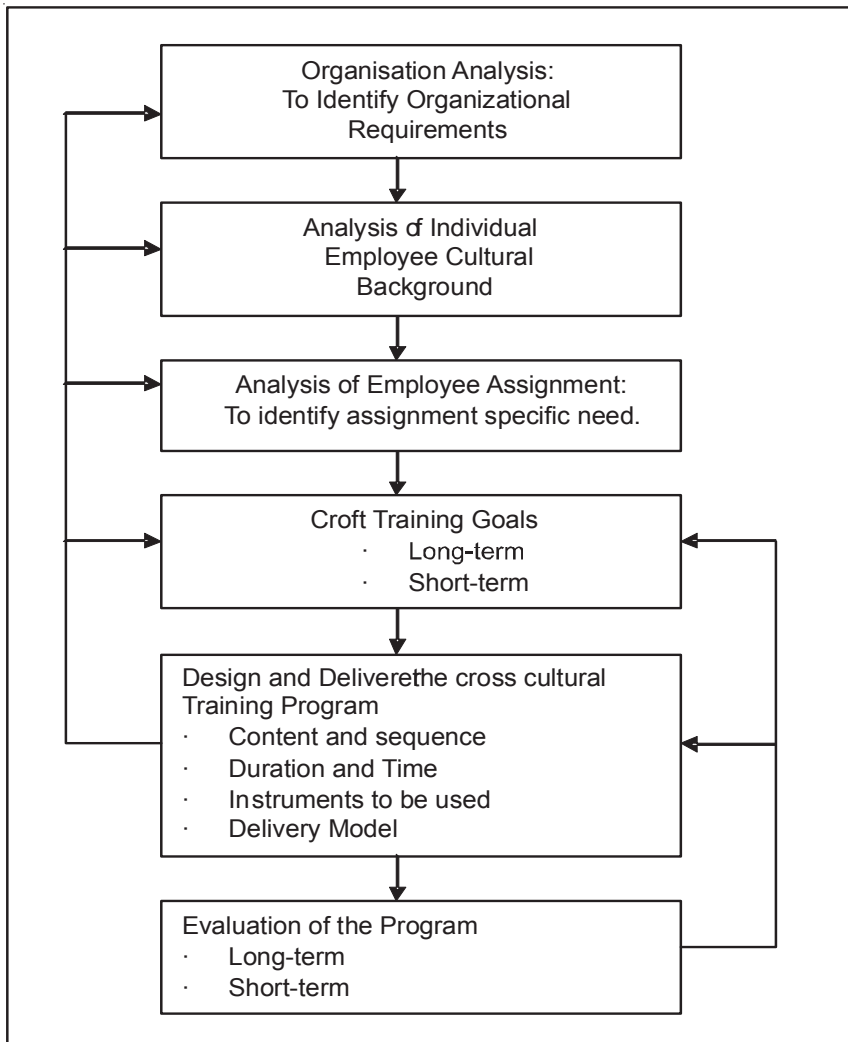
- Analysis of organizational requirements
- Analysis of individual employees culture
- Analysis of employee assignment
- Crafting cross-cultural training goals
- Designing cross-cultural training



- Deliver the program
- Evaluate the program
- Link cross-cultural training with the HRM practices.

**Notes**

Now, we shall discuss, each of the steps of the process of cross-cultural training.



**Fig. 4.9: The Process of Cross-cultural Training**

**Analysis of Organizational Requirements**

Organizational requirements from the cross-culture point of view depend upon organisation’s strategies, structure, culture, power and politics. This analysis aims to identify organizational requirements in terms of employee behaviour, employee values, norms, attitudes, aptitudes and beliefs that contribute to organizational strategies. Further, this analysis tries to identify the required training instruments to impart required skills to understand the required organizational culture and change or modify one’s own culture in accordance with the organizational culture and strategic requirements. In addition, organizational analysis also includes understanding, respecting, considering others’ culture in practicing one’s own culture.

**Notes**

Further, organizational analysis includes understanding the viability and practicability of imparting cross-cultural training, availability of training instruments and the possibility of designing appropriate content of the program. Organisational analysis also includes the cost and benefit analysis of cross-cultural training, its possible contribution to strategy and goal achievement.

**Analysis of Employees and their Families**

MNCs analyse the individual employees—both expatriates and nationals of the country where the headquarters or subsidiary or branch is located. As indicated earlier, host country nationals should also be trained as they interact with the employees of different cultures. So MNCs, have to analyse all categories of employees, in terms of their cultural backgrounds, behavioural requirements during the course of their interaction with other employees with varying cultural backgrounds and cultural behavioural requirements of the organizational strategies. Further, MNCs should consider the employee's prior knowledge and experience of working in cross-cultural environment as well as living in foreign countries. MNCs also consider the expatriates' perceptions towards cross-cultural communication style, cross-cultural leadership style, motivational techniques, abilities to work in team environments. For example, an analysis of Pacific Islands culture indicates that network among employees and their social groups' proceeds over organizational priorities. Expatriates of MNCs in these countries should understand this aspect of the culture and balance it with organizational requirement in the course of activities.

In addition, MNCs should also analyse the cultural background of expatriates' family members and cultural expectations of the society from them. This analysis helps to identify the gaps and design the content of the training program to plug these gaps.

The next one is the analysis of the assignment or the job of an employee.

**Assignment/Job Analysis:** Assignment/job analysis, in addition to tasks, duties and activities indicate cross-cultural knowledge and behavioural skills required to perform the activities most effectively. In fact, each foreign assignment needs to be performed under different cultural set ups and as such requires different cross-cultural knowledge and skills. Therefore, cross-cultural training should be provided based on the assignment requirements.

The next step is to formulate training goals.

**Formulating Cross-cultural Training Goals**

MNCs have to formulate the cross-cultural training goals clearly after analyzing and identifying the training needs. MNCs should conduct cross-cultural training for short-term and long-term assignees separately. Generally, the goals of cross-cultural training include:

- Aligning the cultures of different categories of employees with that of cultural requirements organizational strategies.
- Balancing the cultural variations and conflicts of various cultures.
- Imparting cross-cultural knowledge to employees and skills to mould the own culture in accordance with the cultural requirements of other societies.

**Notes**

- Short-term training goals are to bring about cognitive, affective and behavioural changes. Cognitive goals are to provide the knowledge of cultural values to expatriates on behaviour in the host/destination country
- Specific cognitive goals include understanding the values of assignments, awareness of norms required to interact with nationals effectively.
- Specific affective goals are to help expatriates to manage their attitude towards new culture and manage emotions. They also include: modify the expatriates' perception about the host country's culture, enhance the self-confidence of the expatriates to communicate with the people of different cultural backgrounds.
- Behavioural goals help expatriates to modify their behaviour in accordance with the cultural and behavioural requirements of other nationals.
- Cross-cultural training for technical employees aim at providing social and cultural information of the country concerned.
- Cross-cultural training for strategic and managerial employees aim at modifying their behaviour.
- Forming and developing a common culture by incorporating the best of all cultures that fits with the organizational culture and cultural requirement of strategies.

Now, we shall study how to design and deliver cross-cultural training.

**Design and Deliver Cross-cultural Training**

The analysis of cross-cultural training needs in terms of organizational analysis, assignment analysis, and employee cultural background analysis, helps to identify cultural skill and knowledge gap and design the training program. The content of the program and sequencing the content are based on the new cultural skill and knowledge required for different kinds of employees to implement the strategies efficiently. Sequencing the content is based on the nature of the content, relevance and inter-linkage of one culture with other cultures and time frame for strategy implementation.

Further, the content of the training program is based on the approaches of the MNCs, viz., ethno-centric approach, polycentric approach, regiocentric and geocentric. MNCs that follow ethnocentric approach prefer their headquarters to design, deliver and evaluate the training programs for all their subsidiaries with a view to integrate all subsidiaries culture with that of headquarters. For example, General Electric followed this approach, with it acquired Generale de Radiologie of France. IBM established a subsidiary in Japan and designed and delivered training content and total program like any other large Japanese firm along with other HRM functions like selection, compensation and career development. As such IBM-Japan's employees view this company as a Japanese company rather than a USA company. Such an approach towards training and other HR activities helped IBM-Japan to acquire competitive strength in Japan to employ best university graduates of Japan and retain them.

In contrast to IBM-Japan, another USA's MNC provided the same training to all its subsidiaries' employees world-wide. Employees of UK and Scandinaviane subsidiaries appreciated the idea whereas employees of France, Italy and Latin American subsidiaries criticised the idea and those of Asia failed to implement the training outcome.

**Notes**

It is often felt that ethnocentric approach to training, i.e., designing and delivering the uniform training by headquarters to all its subsidiaries won't produce desired results due to:

- Non-compatibility of the content to subsidiaries of various countries;
- Language problem/issues in deliver
- Badly interpreted material
- Organisational politics
- Employees may not adjust to the way the training program is delivered.

**Integrative Training:** Integrative training is provided in order to integrate the expatriate with the host country culture as well as organizational culture and culture of other expatriates those work in/join the same subsidiary. This training is essential as new expatriates with different cultures arrive and the employee deeply involve in the work culture as well as with the personal and private lives of other employees that affect their work as well as performance.

Training manager has to sequence these three programs and the content of each program with the content of other programs. The order of the sequencing the information and skills can be in the following format:

Program	Information/Skill
<ul style="list-style-type: none"> <li>● <b>Pre-Departure Training:</b></li> </ul>	Basic cultural knowledge, broad about the location, climate, current, banking, marketing, education, health, transportation, hotels, recreational, etc.
<ul style="list-style-type: none"> <li>● <b>Post-Arrival Training:</b></li> </ul>	Values, beliefs, perceptions, attitudes, specific behaviours at the eating places, educational institutions and with superiors, subordinates, colleagues and other stakeholders.
<ul style="list-style-type: none"> <li>● <b>Integrative Training:</b></li> </ul>	Deeper involvement in personal and family lives of superiors, subordinates, colleagues and other stakeholders that affect work culture. Habits, priorities, preferences and specific behaviours of various cultures. Infuse the value that 'all cultures are good and follow the give and take and accommodative approach'.

Therefore, training managers should adapt geocentric approach like IBM-Japan in designing training program, developing training material and delivering the program.

Training duration is to be determined based on the content to be delivered, sequencing of the content, degree of difficulty in understanding the content and the variety of pedagogy to be adapted. The time of the training program should be the stage that the cultural issues are mild over technical issues of the job.

**Pedagogy Instructional Methods:** Training programs should incorporate a variety of instruments in order to make the trainees to feel at ease during the delivery

of the program. A variety of pedagogy should be used. Further, the trainer should deliver the program more interesting and enjoyable like a play in addition to ensuring the efficiency of the program in terms of its goals.

Pedagogy specific to cross-cultural training include:

- Didactic culture general training
- Didactic culture specific training
- Experimental cultural general training
- Experimental cultural specific training

**Didactic:** Trainees are encouraged to appreciate the norms and behaviour of targeted culture by adjusting the cognitive understanding of the culture concerned and to acquire the knowledge of the culture under didactic approach. Didactic culture general training provides general understanding of the culture through lectures, reading material and videotapes, while the knowledge of a specific aspect of the culture is provided using case studies, area studies and orientation briefings under didactic culture specific approach.

**Experimental:** The experimental approach states that cultural skills can be effectively acquired by way of interacting with individuals of targeted cultures. Employees can acquire the general skills of impact of target cultures on their behaviour in immersion and intensive workshop programs under experimental cultural general training. On the other hand, employees can acquire specific cultural skills by closely interacting with individuals of target cultures by way of role play, team plays, outings and simulation exercises. A recent development is the use of 'fiction' under virtual learning of the culture.

Selection of instructional methods/pedagogical techniques depends on culture novelty, degree of interaction with host nationals and job novelty. Trainers have to use high rigour methods (i) if the culture novelty is high, i.e., the home culture of the expatriate varies widely from that of the host country, (ii) if the interaction of the expatriate with the host country national or other country nationals is of quite frequent, and (iii) if the job novelty is high, i.e., the task of the job in the host country vary widely from those of the home country job of the expatriate.

### Sequencing the Training Program

Cross-cultural training program can be conducted in different phases. These phases include:

- Pre-departure
- Post-arrival
- Integrative.

**Pre-departure program:** Pre-departure program provides basic and broad cultural information in the destination country in general and the city in particular. This training aims at preparing the prospective expatriates to live and work in a foreign country. The individuals assume the situations, conditions and realities of living and working in the foreign destination. This training creates realistic expectations among prospective employees and favourably affects cross-cultural adjustments. However,

**Notes**

this training should provide information about culture in the host country, exchange rates, hotels and other eating places, lodges, housing, marketing places, transportations, schools, colleges and universities, hospitals, recreation facilities etc.

**Post-arrival program:** Post-arrival training program provides the realities of the culture, hands-on experience, and specific issues of the culture in the host country as well as in the organization. The individual employees experience the culture after arrival, encounter the cultural conflicts and therefore learn the culture in the host country via problem-based learning techniques.

**How to Assimilate Foreign Cultures?**

Individuals can assimilate foreign cultures and apply them when they have prior accumulated cultural knowledge and a positive approach towards foreign cultures.

Now, we shall discuss the evaluation of cross-cultural training.

**Evaluation of Cross-cultural Training**

Like any other training program, cross-cultural training program should also be evaluated against predetermined training goals. In fact, the evaluations should take place of each and every stage like pre-departure and post-arrival stages. In addition, training manager should adapt concurrent evaluation in addition to feedback evaluation.

One of the major goals of cross-cultural training is to modify the cultural aspects of the expatriates' behaviour. Training evaluation can be done against short-term goals and long-term goals.

**Evaluation against short-term goals:** Evaluation of training against short-term goals includes the extent to which cognitive, affective and behavioural changes have occurred during training. Cognitive outcomes indicate the acquisition of new knowledge of the culture. Affective outcomes like attitude and motivation measure the shifts in expatriate's perception about the culture. Behavioural outcomes measure the change in cross-cultural skills like inter-cultural communication skills and language skills. The skill development can be measured through performance in simulation and role play exercises.

**Evaluation of long-term goals:** Long-term goal of cross-cultural training would be the adjustment of the expatriate to the host country's culture. Expatriate's adjustment is measured through paper and pencil questionnaires, telephonic interviews, personal interviews, electronic surveys, and expatriate's performance analysis.

**Link Cross-cultural Training with Other HR Practices**

Cross-cultural training should be linked to all other HR practices for efficient performance. Recruitment of employees with multicultural background reduces the degree of cross-cultural training requirement and enhances the chances of employee adjustment to host country's culture.

**Language Training**

Language plays a predominant role in international business. Though 'English' language is widely used in international business transactions, most of the stakeholders like customers, marketing intermediaries may not communicate in 'English' language

even in some of the 'English' speaking countries like India, Malaysia and Papua New Guinea. In addition, there are some countries in which even business transactions take place in languages other than 'English' like French, Arabic and German. But, MNCs can not employ only HCNs at all levels to man the jobs as the required skills particularly for managerial and technical jobs may not be available within the country. Therefore, MNCs employ expatriates who cannot speak the language used for business transactions in the host country. This situation forces MNCs to provide language training.

### Why Language Training?

Language training is essential due to the following reasons:

- Use of 'English' language for business transactions by MNCs in most part of the world.
- Following of various languages other than 'English' by customers, marketing intermediaries and suppliers of various inputs even in 'English' speaking countries.
- Following of different languages, other than 'English' in some countries like France, Germany, Italy and Arab countries.
- Use of different technical terminology/jargon among the countries speaking the same language. For example, Indians use the term 'meet you later' whereas Australians and Papua New Guineans use 'catch you later' to denote the meaning of we will meet each other at a later date.
- Employment of the people who can't speak the language of the land, where MNC operates.
- Customers, colleagues and other stakeholders in the host country feel happy and proud, if expatriates speak in the host country's language. For example, the author observed happy and exited moments and a feeling of proud among the nationals of Papua New Guinea, whenever the author's colleague Mr. Monahar – a Sri Lankan national and an expatriate in the country – used to speak in 'Pidgian' – major local language of the country with Papua New Guineans.
- Transfer of employees among headquarters and subsidiaries of MNC where varieties of languages are spoken and/or used for business transactions.
- Inability of most of the employees to be multilingual.

MNCs, therefore provide language training. Some of these programs include English as a second Language, French as second language, English for speakers of other languages and German for speakers for other languages. In fact, increase in the number of expatriates in Indian software and Pharmaceutical industry resulted in providing training programs in Hindi language for expatriates in India. Most of the MNCs provide this training during pre-departure stage where the facilities are available. Alternatively, some MNCs provide after the arrival of the expatriates at the place of work.

### Alternative to Language Training

Some of the MNCs have been developing alternative measures to language training. These alternatives include:



**Notes**

- Searching and employing people with multilingual background. In fact, Coca-Cola has been following this strategy in order to make the customers and stakeholders feel comfortable in interacting with the employees.
- Encouraging the employees to undertake language courses conducted by various educational institutions in different languages, particularly those languages, which are widely used in countries where their subsidiaries are operated. For example, Edgar S. Wooland, Jr. Chief Executive Officer of Du Pont took a crash course in Japanese language. Managers of other MNCs like Eastman Kodak, Citicorp, General Electric, HSBC, LG and General Motors took crash courses in second languages.
- **Alliance with the Educational Institutions:** MNCs can arrange with high schools and/or universities to conduct crash courses/short-term training courses in languages to their employees.
- Produce audio and video tapes and CDs and DVDs on language self-learning and supply the same to employees.
- **Appointing the Translators:** Though the appointment of translators can be an alternative to language training, it can't be effective as translation would be difficult with regard to business terminology in some countries. Translation needs special training than teaching a language. It also needs close familiarity with the society and business stakeholders, particularly technical personnel.

**Who are the Trainees?**

The interesting question here is who are the trainees for language training? The straight answer is: expatriates. But, it would be clear that the jobs in MNC are transferable and as such, the employees from their home country may be transferred to other subsidiary or parent company where the language would be quite different. Therefore, all employees in MNC need language training, in the long-run, if not immediately.

Now, we study the net aspect of training i.e., global mind-set training.

**Global Mind-set Training**

Globalisation is a comprehensive act it includes globalization of business, globalization of culture, globalization of technology and the like. Yet the national or domestic business, culture, technology and social factors prevail. In fact, the national and domestic culture, political factors/system and social system of the country influence international business where it operates. These factors vary widely from country to country and sometimes from region to region within the same country. Therefore, the popular business slogan these days is 'thinking globally, but acting locally.'

However, the globalization process has resulted in internationalization of business, products, systems, services, technology, finance, production and jobs. Internationalization of jobs, in its turn require the people to think globally, but act locally. As such, employees of MNCs have to serve the customers of the host country like employees of the domestic company, design the products for the host countries like a domestic company. In other words, they have to think and act in a comprehensive manner by taking the culture, political, social and other conditions of all the countries where the MNC operates.

**Notes**

Comprehensive thinking/viewing of the globe by the employees of MNCs would be possible only when they have the knowledge as well as experience of working in different countries. Further, MNCs can have a comprehensive strategy when majority of its employees have the knowledge and experience of working in other countries. Otherwise, those who don't have such knowledge and experience can think from ethno-centric point of view, i.e., what works at the home also works at the foreign countries. This situation would result in committing mistakes with regard to foreign operations in terms of product design, ingredients of the products, promotional aspects including advertising, pricing and customer service. Failure of the Chinese toy companies in designing appropriate toys from the point of safety for European and North American markets is an example at this juncture. Similarly, failure of Indian detergent company in making appropriate advertisement copy for Saudi Arabian market as it used the Indian advertisement in Saudi Arabia.

In fact customers in foreign countries expect the MNC, to behave as they behave rather than make a shift in accordance with the behaviours of MNC employees or to accept and comprise with whatever the MNC delivers. Domestic companies deliver the goods and services in accordance with the customer expectations. Therefore, MNCs in order to compete with domestic companies as well as to serve the customers as they desire should have a comprehensive view and experiences of the markets wherever they operate. For example. Whirlpool Corporation when it purchased the appliance division of Philips of the Netherlands in 1989, organized a conference for its top 140 executives including the executives of the erstwhile appliance division of Philips to create an awareness of the markets and as well as create and develop relations among executives working in all 16 countries. This conference produced favourable results. Employees of MNCs can perform to the expectation of the stakeholders of foreign countries when their minds are set globally.

'Mind-set' of a person is the interpretative frameworks that come from his/her experiences cultures and social and professional interaction and that guide how they classify discriminate and arrange events and people in ways that help him/her to understand what he/she observe and perceive. Turning the mind-set towards foreign markets, culture and people help MNCs' employees to perceive accurately, from an opinion close to the reality of foreign markets and react to foreign situations appropriately.

Employees of MNCs in order to interact effectively with managers, customers, market intermediaries and suppliers and colleagues in other countries should have the ability and willingness to interact from others' point of view and approach. They can acquire the ability by acquiring the knowledge of foreign countries where the MNC operates. The global mind-set of the employees creates willingness to interact with managers and stakeholders of MNC in foreign countries. However, the conflict between global focus and national focus of employees may create a problem of acquiring required global human resource skills and mind-set.

Managers of MNCS, in order to acquire global mind-set should:

- Cope up constructively with globally competing priorities.
- Sustain a holistic global outlook.
- Zeal to become internationalists characterizing by tolerance, flexibility, curiosity/inquisitiveness and ability to deal with ambiguity.

**Notes**

- Global awareness of behaviours and cultures.
- Flexible, adaptable and shift from one ego to other ego state.
- Knowing how to live and work across cultures and practice it.
- See the foreign country and markets from the aspects of nationals as well as foreigners.

**What is Global Mind-set?**

Global mind-set is the ability to scan the world from a broad perspective, always looking for unexpected trends and opportunities that may constitute a threat or an opportunity to achieve personal, professional and organizational objectives. Global mind-set is further defined as, “the ability to accept and work with cultural diversity” as well as involving “a set of attitudes that predispose individuals to balance competing business, country, and functional priorities which emerge in international (situations) rather than to advocate any of these dimensions at the expense of others”.

**Characteristics of Global Mind-set**

Employees of MNCs should possess a set of competencies to learn a global mind-set. The following are some of the characteristics of global setting.

- Broader skills and outlook.
- Ability to conduct business on global scale.
- Awareness of national differences, view them as opportunities and design the strategy to make use of such opportunities.
- Ability to tolerate the differences in culture and interact with people of different cultures with an understanding, passion and sensitivity to others’ cultures and customs.
- Ability to manage global complexity, contradictions and conflicts in international transactions as well as in international human resource activities and behaviours, that result due to conflicting cultures, values, attitudes and norms among various countries.
- Creating organization change, managing change and adapting to change.
- Creating and building multi-cultural teams, adapting to team norms, team behavioural requirements, managing the storming stage of the team and contributing to the performance of the team.
- Understanding, viewing positively and analyzing from multiple view points of the uncertainty, chaos and crisis situations and managing them rather than either sailing with them or making such situations worst.
- Intuition to enhance learning of the global issues and conceptualise them; and
- Enable the organization to learn and adapt to global context and global changes and developments.

**How to Develop Global Mind-set?**

Global mind-set plays a vital role in the success of global employees. Therefore, employees of MNCs should develop global mind-set. Following are some of the modes to acquire global mind-set:

**Notes**

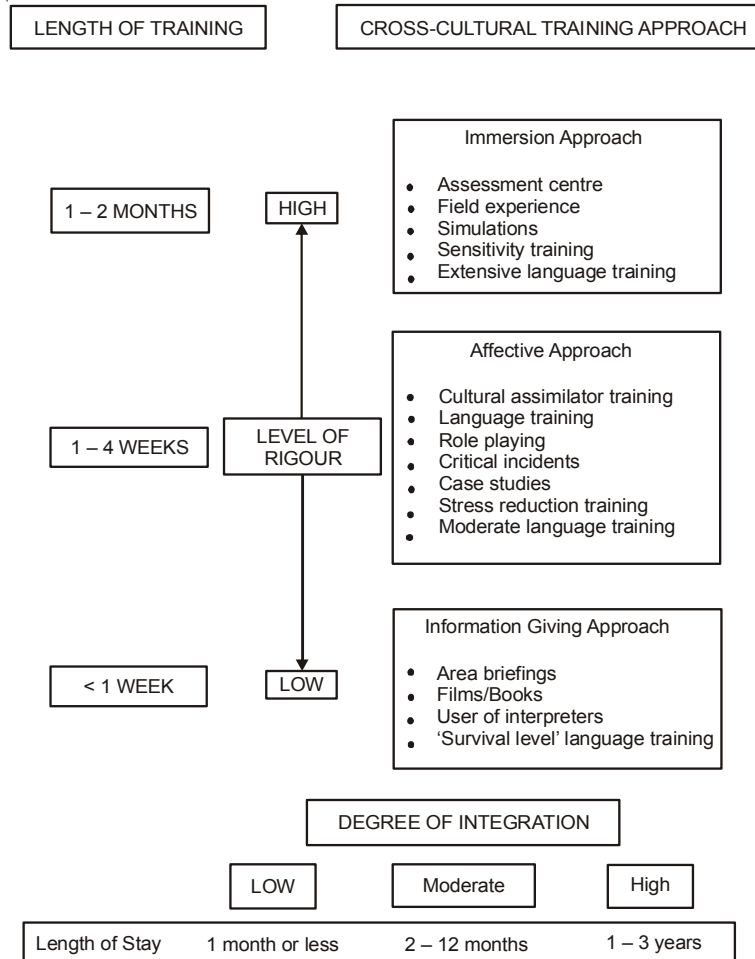
- Working in foreign countries, passing through various stages of learning of the culture including culture-shock, absorbing those shocks and learning out of them and learning business transactions – culture interface. In fact, the author expresses that his personality and assessing the situations developed significantly by living and working in different countries. Sometimes he shifted from one ego to other ego state quickly in order to understand the people in foreign countries correctly. Misunderstandings took place in a variety of situations due to cultural variations. He encountered situations, where the 'words' do not really mean what he wanted to communicate. People in various countries are really good and have good intentions, but the cultural differences prevent a foreigner from understanding the exact meaning of the communication. For example, Papua New Guineans normally don't respond negatively just not to hurt others. People from different cultures may assess their performance negatively as they say 'yes' but don't perform. One should understand and experience the culture in order to avoid the blunders in people management. Thus, living and working in foreign countries develop global mind-set.
- Involving in a variety of social and cultural events while working in foreign countries, interacting with a broad variety of people, learning from these interactions and modifying one's own personality by changing 'ego' states rather than 'sticking to one ego state' for the mutual benefit of expatriates and HCNs as well as for the broader benefit of the MNC. These activities would result in deep changes in personal identity, self-respect and perspectives.
- Take-up short-run assignments that would involve conflict-resolution, crisis management and negotiations with managers and stakeholders of subsidiaries in other countries.
- Conduct of simulation exercises involving the employees from different countries with a briefing of cultures of each participant.
- Conduct of on-line training with regard to general cultural background of various countries.
- Production and supply of video material with regard to specific and critical cultural issues and events.
- Conduct of on-line counter and encounter group training sessions in cultural, behavioural and other related issues.
- Conduct on-the-job training via on-line with regard to interaction among the employees of different subsidiaries.
- Conduct of lectures on the topics like cross-culture desirability, how to view cultural variation as an opportunity? how do the cultures emerge? how to adapt to the cultures and managing cultures.
- Conduct of conferences and annual events for cultural adaptability.
- Exchange of employees among subsidiaries and headquarters on short-term basis.

**Pre-Departure Training**

Pre-departure training is provided to the selected candidates for jobs/new employees and to the existing employees who are assigned a job in other countries. This training is provided at the country where the candidate currently lives or in other

**Notes**

nearby country other than the future place of work. For example, some MNCs provide training either in New Delhi for the candidates selected from India, Pakistan and Nepal for jobs in European countries. Fig. 4.10 presents the process and approaches of pre-departure training.



Source: Mendenhall, Dunbar & Oddou, 1987: 340.

**Fig. 4.10: Pre-departure Training Process**

Pre-departure training is provided mostly in four areas, viz.,

- Culture
- Language
- Preliminary aspects of the job
- Business environment in the destination countries.

Cultural aspects of training under cross-cultural training section, language training and job aspects of training under technical training section and functional training section of this chapter are already discussed. Business environmental aspects of training includes creating awareness in the areas of economic environment, social environment, technical environment and political environment.

## Who are the Trainees?

## Notes

The logical question at this juncture is to whom this training should be provided. MNCs, in the past used to provide pre-departure training only to selected candidates. Later, MNCs have realized that one of the significant reasons for the failure of expatriate is due to the failure of his/her family members to adjust to the foreign culture and physical conditions. Therefore, MNCs now, provide pre-departure training to the following:

- Employee
- Employee's Spouse
- Employee's children
- Other accompanying family member of the employee.

GMAC-GRS survey – 2000 responses reveal that MNCs provided pre-departure training to whole family (33%), employee and spouse (29%), employee only (2%) and none (36%).

Pre-departure training in cross-cultural aspects and in language is provided to employees and their family members and training in preliminary aspects of the job and business environment is provided to exclusively employees.

## Training for Expatriates

We have analysed the reasons for expatriate failure in the earlier chapters. The analysis indicates that the failure of expatriate's spouse and other family to adjust to physical environment and cultural environment of the foreign country is the important reason for the failure of expatriates in the foreign assignment. The other reasons include:

- The employee's inability to adapt to social and cultural environment and physical factors in foreign countries;
- Employee's immature personality factors and less emotional intelligence;
- Employee's inability to cope-up with the responsibilities and challenges of foreign assignment
- Employee's lack of technical competence; and
- Employee's lack of motivation to work in foreign countries.

Providing training for expatriates and their family members is a significant measure to avert and (or reduce the expatriate failure) and enhance expatriate's success on the foreign assignment. Training programs may differ from country to country and from one MNC to the other. However, they often consist of the following:

- Language Training
- Cross-cultural Training
- Field Experience
- In-house training programs
- Training by outside agencies.

## Notes

## BOX 4.12: RESULTS OF A RESEARCH STUDY ON PRE-DEPARTURE TRAINING

In terms of pre-departure training for expatriate assignments, the interviewees noted that although they consider training as essential, the high costs associated with expatriation reduced their capacity to provide formal training for expatriation. Respondents tended to believe that 'Training is important, but the cost benefit must be considered'. Generally, most of the participants indicated that the level of pre-departure training provided depended very much on the cost and the benefit obtained from running such programs. As a result, they tend to rely on indirect forms of training, such as notes for guidance and the provision of an internet information web-site.

These respondents also noted that their companies considered other forms of preparation to be more cost effective. These preparatory initiatives included 'flying the employee and family over to location to check out if they would like to stay'. The relevance of briefings and shadowing of current incumbents was also highlighted by the respondents. Indeed, these were more frequent practices than the provision of formal training programs. Interviewees indicated that this company used the 'immersion approach' to a limited extent for some countries where expatriates must be fluent in language. In this situation, they provide

extensive training. This respondent added that the expertise of the expatriate also determines the type of training. For example, engineers and scientists would not receive the immersion approach, whilst sales and marketing would need this more intensive training. According to these respondents, certain jobs (e.g., marketing) require greater interpersonal relationship with host country nationals. In contrast, Tung indicated it depends on other factors such as, length of stay and degree of engagement. Most study participants agreed that the degree of expected interaction and similarity between the home and host cultures would predict the use of the cross-cultural training method by their employee and his/her family. Interviewee two noted that training would be provided for all family members for countries that are culturally different. Some of the respondents recognised that all families who could not speak the language would feel isolated, and, therefore, the language survival briefing should also include the wife and children of the expatriate. On the whole, most companies recognised the need for pre-departure training for their expatriate and family, but the extent and coverage are driven by the cost considerations. This primarily resulted in the adoption of less intensive training.

We have already discussed the language training and cross-cultural training. Under the cross-cultural training, trainees are exposed to factual information about the historical, social, cultural, political, economic, and religious factors that shape the mentality and behaviour of the people in a given country and region. The purpose of this training is to help the expatriates and their family members to behave in a particular way in the foreign social and work set up.

Training is provided through a mix of pedagogical tools like lectures, audio-visual presentations, discussion with the speakers etc.

**Field Experience:** MNCs depute the prospective employees for a six months period to the foreign subsidiary to observe and learn the culture, job related skills and knowledge. The employees returns to the home country, prepares his/her family members and then take-up the foreign assignment.

**In-house Training Programs:** In addition to cultural training and languages training, MNCs train the employees in foreign exchange, international economics, international trade and other related areas in order to provide managerial skills, job knowledge and jobs skills. Japanese MNCs realized the significance of developing managerial skills to expatriates in order to prepare them for added responsibilities in overseas assignments. In fact, Japanese expatriates have to operate on their own in



the foreign job without much interaction or direction from the home. MNCs conduct in-house training programs in order to develop managerial skills, technical skills and other job related skills.

**Outside Agencies:** A number of outside agencies and consultants throughout the world offer training programs to the expatriates to prepare them for foreign jobs, in addition to in-house training. MNCs engage these outside agencies to provide training to their expatriates. These agencies provide specialist training in technical skills, managerial skills, advanced management knowledge, international politics, international relations, foreign exchange etc.

### On-the-Job Training Assignments

MNCs provide cross-cultural as well as language training through pre-departure training as well as post-arrival training. Expatriates after adjusting to the physical conditions as well as the general culture of the foreign countries should acquire specific cultural skills, inter-personal skills and technical skills relating to the work place and the job. MNCs can also provide these skills through on-the-job assignments. In fact, employees acquire these skills most efficiently through on the job assignments.

On-the-job assignments provide employees an opportunity of interacting with colleagues, superiors, subordinates and other stakeholders in the midst of the culture and physical conditions and learn/acquire skills from the reality. Other opportunities of on-the-job assignment include:

- **Coaching from the Superiors:** Employees acquire critical skills, tactics and crucial knowledge relating to human behaviour, sensitive issues of foreign culture like values and interpersonal norms, ethnical issues and functional aspects through face-to-face coaching by the superiors and some times by the colleagues as well as subordinates.
- **Understudy:** On-the-job assignments enable the employees to observe, and study the superiors with regard to interpersonal skills, adapting to the culture, decision-making, motivating, leadership and functional skills and develop his/her own skills in these areas and mould his/her own personality to suit to the foreign assignment.
- **Multiple Management Skills:** On-the-job global assignments to different jobs in different departments of the MNC enable the employees to acquire the skills in human resource management, financial management, marketing management and operations management, in addition to cultural and specific behavioural skills. Thus, on-the-job assignments enable the trainees to acquire multiple management skills.
- **Development of Global Mind-set:** On-the-job assignment to different countries with varied and conflicting cultures, social, political and economic systems and behavioural backgrounds endure the employee to learn, slash the pre-conceived mind-set and develop new mind-set that accepts and appreciate various cultures and systems. Thus, global mind-sets that suits the MNCs is evolved and developed through on-the-job assignments.

### International Team Training

Team work is regarded as a distinctive characteristic of Japanese companies. Employees view themselves as members of team community rather than just

**Notes**

employees. Team is a group of employees with complementary skills. In fact, most of the MNCs, of late started designing and building teams for enhanced organizational performance as it is widely established that team performance is superior to that of individual.

Working in team is rather difficult than that as individual as the former requires understanding and adapt to culture, values, norms and other behavioural aspects of other members of the team. In turn, team as a whole has to tune its behaviour towards the behavioural requirements of the team project/task and the organization. Teams in MNCs are comprised of the employees drawn from conflicting cultures and hence values, norms and behaviours in addition to varied technical and functional skills. Hence, MNCs train the employees in team building and team work skills.

**Advantages of International Team Training**

International team training offers a number of advantages to the MNCs like:

- Sharing and exchanging of technical skills, functional knowledge and cultures across the nations;
- Developing global mind-set and preparing the employees for effective international assignments;
- Creating challenge and competition among employees and thus provides an opportunity to realize highest potential of international employees;
- Realisation of highest human potential results in innovation and creation;
- Developing problem solving skills, crisis management skills and conflict management skills; and
- Developing organisational learning, global culture and global human resources.

**Process of International Team Training**

International job assignments for employees from different countries on a single project provides an opportunity to work together and share and exchange their skills, culture and behaviours. Initially team members may experience conflicts of understanding their cultures and behaviour and adapting to each other's culture as well as team culture. Once this storming stage is over, they learn from each other with regard to technical and functional skills, which in turn multiplies their skills and lead to significant human resource development. Further, it also results in global mind-set of employees. These stages of the process ultimately result in the development of competent global human resource that creates distinctive competency to MNC and ultimately lead to organization development. Fig. 4.11 depicts the global team training process.

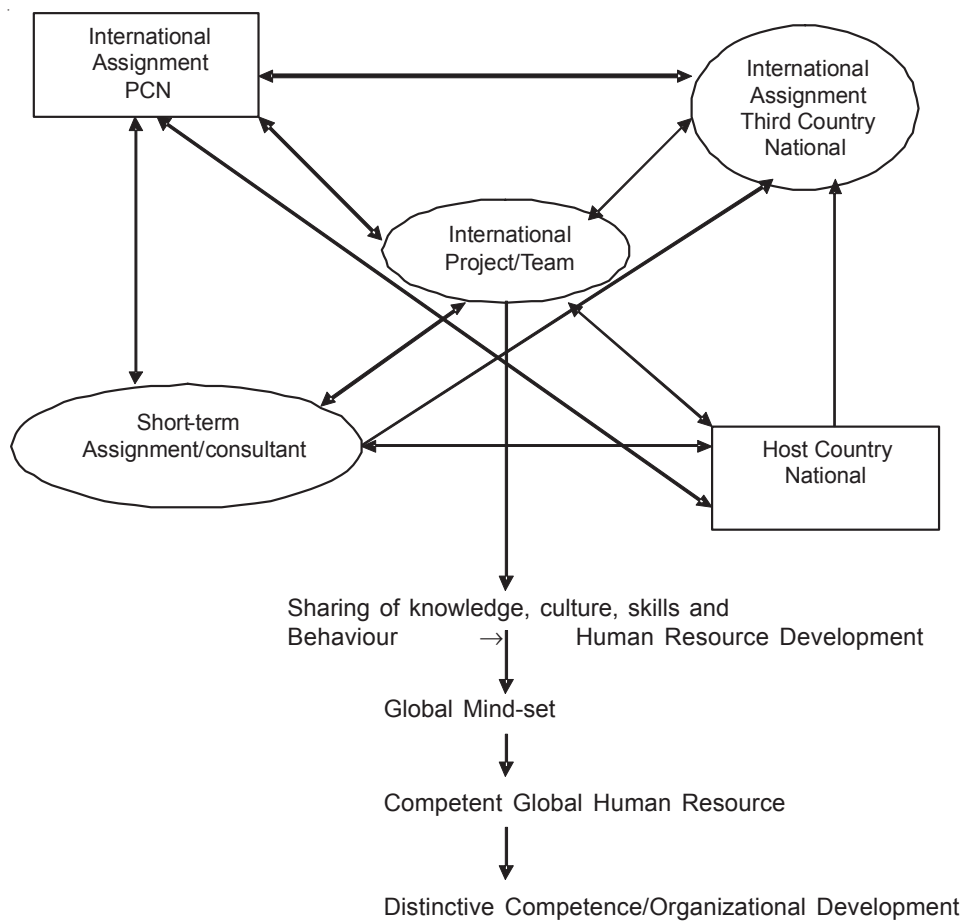


Fig. 4.11: International Team Training Process

**Conclusion**

Continuous learning and life-long learning have become essential features of human resource management consequent upon globalization and strides in information technology. Added to this, the globalization process necessitated a wide range of strategic alliances like joint ventures, acquisitions, mergers and amalgamations, outsourcing and collaborative work in the supply chain management process. Global training is provided to both expatriates as well as host country nationals though it differs in degree. Global training is provided in various areas like technical training, functional training, strategic management skills training, soft-skills training, cross-cultural training, language training, pre-departure training, expatriate training, training for short-term assignments, on-the-job training assignments, global mind-set training, team training, and management development.

**4.4 MULTINATIONAL PERFORMANCE MANAGEMENT: CHALLENGES**

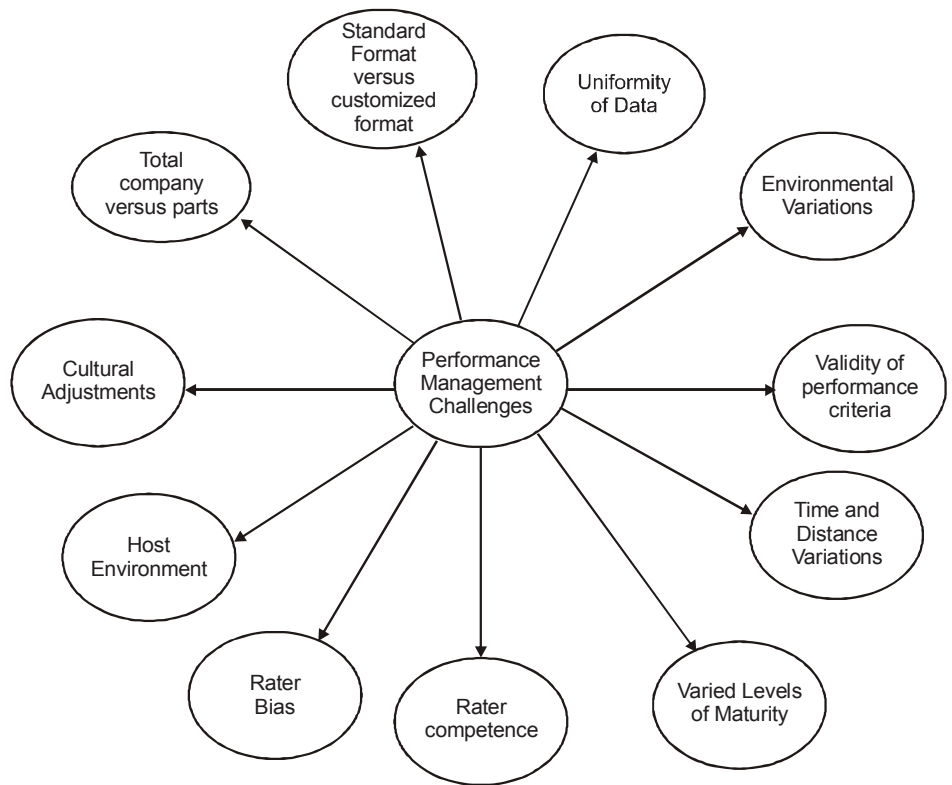
International human resource managers as well as the managements of MNCs face a variety of challenges and difficulties in managing the performance of different types of employees. These challenges include:

- Total Company versus Parts of it
- Standard Format versus Customized format

**Notes**

- Uniformity of Data of Performance
- Environmental Variations
- Validity of Performance Criteria
- Time and Distance Variations
- Varied Levels of Maturity
- Rater's Competence
- Rater Bias
- Host Environment
- Cultural Adjustments

Fig. 4.12 presents the challenges of performance appraisal in international human resource management.



**Fig. 4.12: Challenges of Performance Appraisal in International Human Resource Management**

**Total Company versus Parts of It**

MNC consists of headquarters, subsidiaries and its various alliance companies. Making different types of appraisals using different performance appraisal techniques is critical and conflicting in MNC as the decision affects various organs of the MNC differently. In addition, even the implementation process of the decision results in contrasting outcomes. For example, alliance between Coca-Cola Limited and Pepsi-Cola Limited would be a viable proposition in small countries like Papua New Guinea from the cost as well operational points of view. But this alliance would negatively affect both Coca-Cola and Pepsi-Cola in other countries. So, the dilemma is which decision would be appropriate?

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MNCs too face dichotomy situations in its pricing policy. The autonomous subsidiaries fix the price for their products taking the purchasing power of the people of the country concerned. The subsidiaries in low income countries fix lower price while the subsidiaries of higher income countries fix higher price. For example, Johnson and Johnson (India) Ltd., fixes lower prices for its products compared to its counterparts in USA and Japan. The result of such a strategy is occurrence of arbitrage. Individuals as well as companies are engaged in arbitrage. Arbitrage occurs when an individual or a company purchases a particular product in the country where the price of the product is lower and sell the same in the country where the price is higher. For example, Fort Escort once cost \$2,000 more in Germany compared that in Belgium. This price discrimination resulted in arbitrage as the people used to buy the Fort Escort in Belgium and sell the same in Germany for a profit.

Thus, though the price discrimination is appropriate from the point of view of per capita income differentials, it would be quite inappropriate from the point of view of the resultant arbitrage.

The best practices from the point of view of a subsidiary need not be the same from the total MNC and *vice-versa* is also true. However, it is viewed that the decision/action that helps the major parts of the MNC is appropriate than the one that helps a few parts/subsidiaries of MNC. Similarly, the decision/action that helps the MNC in the long-run would be appropriate though it would result in a loss in the short-run.

Now, the core issue is how to measure the performance of employees working in headquarters and subsidiaries, when headquarters and subsidiaries follow different strategies and implement varied actions. These aspects of dichotomy in decision-making and implementation of decisions also result in dichotomy in measuring the performance of employees. Should the performance of an employee of a subsidiary, who makes a decision/acts in the interest of the subsidiary concerned be rated as positive? The answer to this question can't be straight forward as such a decision may affect the other subsidiaries and/or parent company negatively. Similarly, should the performance of an employee of parent company, who makes a decision/acts against to the parent company, but in favour of all subsidiaries, be rated as negative? The answer to this question is also unclear. Both the positive and negative aspects of a decision on the total company should be assessed, prior to the performance assessment. In fact, international performance management systems should not discourage the employees from performing to the best of employee's abilities. (See Box 4.13).

Another difficulty of performance appraisal is the time span of the impact of the decision or action. Employee makes decision/acts in a particular year, but the impact may be in other years. Should the performance affected in the year of decision-making/action or in the year of the result of the decision/action be appraised? The answer for this question is also unclear.

Therefore, evaluating the performance of employees of MNCs would be rather difficult in view of the challenges mentioned.

**Notes****BOX 4.13: 'YOU DO NOT REQUIRE AN INVITATION TO PERFORM'**

<ul style="list-style-type: none"> <li>* Give the youth a proper environment. Motivate them. Extend them the support they need. Each one of them has infinite source of energy. They will deliver.</li> <li>* You do not require an invitation to make profits.</li> <li>* If you work with determination and with perfection, success will follow.</li> <li>* Between my past, the present and the future, there is one common factor: Relationship and Trust. This is the foundation of our growth.</li> <li>* We bet on people.</li> <li>* Meeting the deadlines is not good enough, beating the deadlines is my expectation.</li> <li>* Don't give up, courage is my conviction.</li> </ul>	<ul style="list-style-type: none"> <li>* We cannot change our rulers, but we can change the way they rule us. As A G Krishnamurthy, founder of Mudra Communications, writes in his book, Dhirubhaism, about some of the Reliance founder's doctrines:</li> <li>* Roll up your sleeves and help. You and your team share the same DNA.</li> <li>* Be a safety net for your team.</li> <li>* Always be the silent benefactor. Don't tom-tom about how you helped someone.</li> <li>* Dream big, but dream with your eyes open.</li> <li>* Leave the professional alone!</li> <li>* Change your orbit, constantly!</li> <li>* Money is not a product by itself, it is a by-product, so don't chase it.</li> </ul>
<p><i>Source: <a href="http://www.rediff.com">http://www.rediff.com</a>(Accessed on 11/08/2007).</i></p>	

**Standard Format versus Customized Format**

Generally common performance criteria/performance factors are applied for a group of employees belong to the same level and kind. Some companies apply quantitative factors like profits, return on investment, cash flows, productivity, market share, sales per employee, production cost per employee, operating costs per employee, punctuality and rate of customer complaints. Some MNCs apply qualitative factors like innovation, leadership, value creation, value addition, inter-personal relations, motivation, initiative, judgement, adaptability, attitude and friendliness.

Challenge in performance appraisal is that should the headquarters and subsidiaries adapt the same and standard criteria/performance factors or different criteria? Environmental factors of the country concerned, also affect the performance criteria. Therefore, MNCs prefer to use different criteria for different subsidiaries. However, this would affect the uniformity of performance rating within the company.

Another challenge is that most of the environmental factors in foreign countries would be beyond the control of particularly expatriate employees. For example, the long pending strike in Bougainville Copper Mine in Papua New Guinea is beyond the control of the employee as it is mostly against the management's policy. Sometimes, the favourable environmental factors result in boost up of the sales and thereby profits. For example, increase in sales of Whirlpool washing machines in India is mostly due to the enlargement of middle income group in the country. Similarly, increase in the sales of Hewlett-Packard's computer sales in India was mostly due to the increased use of computers in offices and educational institutions. Increased sales of the newly started Digicel Mobile services in Papua New Guinea in 2007 were due to the higher tariffs of the 'B' Mobile services—the exiting company and a subsidiary of Telikom (PNG) Limited, a public sector company in the country. Therefore, increased sales and thereby enhanced profits, sometimes, can't be attributed to employee performance alone.

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Organizational performance in terms of sales, profits, repatriation of profits to the headquarters is influenced by the regulations of the host country's Government like issuing license or canceling the issued license, exchange rate controls, immigration and migration controls, tariffs, subsidies, and employment of nationals. Therefore, increase or decrease in profits can't be attributed to the employee performance alone. In fact, MNCs can't follow a standard format of performance rating as the influences of environmental factors vary from country to country and hence from subsidiary to subsidiary. Thus, there would be different performance appraisal formats for different subsidiaries, that defeats the purpose of uniformity of performance appraisal in the same MNC.

Another challenge of performance appraisal is should the performance of parent country national be evaluated based on the format adapted by the headquarters or by the subsidiary where the employee is actually working? Of the performance of parent country national is evaluated against the headquarters format, what additional factors from the point of the environment of subsidiary should be included. These additional factors may include the relationships with trade unions, customers, local government, local community, local public image, local market share, negotiation skills, cultural adaptation skills, community involvement, and relationship with local workers.

Thus, it would be a dilemma for the MNCs with regard to the usage of standard format for all subsidiaries or adaptation of different formats for different subsidiaries.

**Uniformity of Data**

MNCs and their subsidiaries operate in several countries under varying environmental influence. In addition, they carry-out different kinds of business including manufacturing, trading, dealing in services, construction projects and the like. Even in manufacturing sector, they manufacture a variety of products. Therefore, providing data in terms of uniform data in physical units would not be possible. However, variations in measurement of scale pose a problem, though it is minor. Therefore, measurement of employee performance of different subsidiaries in terms of physical productivity on a uniform scale is rather difficult.

MNCs, in order to avert the problem of absence of uniformity of data, prefer to convert the data in physical units into monetary terms. Even such converted data are not free from problems and challenges. The major problem is owing to variations in living costs and purchasing power in various countries. Differences in accounting standards among countries pose challenges in measuring employee performance on a uniform scale. Factors responsible for difference in accounting standards among various countries include:

- Cultural differences among world nations,
- Relationship between business and capital providers,
- Political and economic ties with other countries,
- Historic cost and inflation accounting, and
- Level of development of various countries.

**Culture:** Cultural factors of a nation differentiate the accounting standards of that country from other countries. Highly conservative countries tend to understate



**Notes**

assets and income, whereas optimistic countries tend to be more liberal in their recognition of income. German companies are more conservative in reading profits while US companies show optimistic earnings in order to attract investors. This indication tend to show the performance of employees working in US subsidiary of an MNC as higher compared to that of his/her counterpart in German.

**Capital Providers:** Accounting system is oriented towards providing financial information based on the major capital. Accounting system in USA and UK provides information to individual investors point view, while it is oriented towards banks in Germany, Switzerland and Japan and oriented towards Government in France and Sweden. Thus, accounting system does not present uniform information in all countries. Therefore, it results in difficulties in measuring employee performance even in financial terms.

**Political Ties:** Accounting systems among countries also vary based on political ties among them. For example, USA, Canada and Mexico follow similar accounting system, European Union Countries cover common norms, and most of the colonial countries of the former British Empire have accounting practices modeled on Great Britain's Accounting system. Thus, accounting systems of various countries provide accounting information differently.

**Historic Cost versus Inflation Accounting**

Under the historic cost model, the values are not adjusted, in accordance with the price increase consequent upon inflation. Most of the countries including Germany, Japan, USA, UK and India follow the historic cost model. The wide spread inflation during 1970s created a need for accounting methods that adjust for the effects of inflation. Subsidiaries in those countries where historic accounting is followed can't provide correct information with regard to employee performance. In addition, the information provided by subsidiaries that operate in those countries that follow inflation accounting model can't be compared with that of other subsidiaries operating in such countries that follow historic accounting model. Thus, obtaining uniform data is rather difficult.

**Level of Economic Development**

Advanced countries are characterized by developed money markets, capital markets and large size MNCs. Business houses in these countries procure financial resources from individual investors, institutional investors financial institutions and banks through a variety of financial instruments like shares, debentures, warrants, commercial paper, global deposit receipts etc. As such the business firms have to maintain a variety of financial reports to provide information to a variety of stakeholders. As such, advanced countries have more sophisticated accounting and financial reporting systems. Less developed countries have less sophisticated accounting system and practices due to the nature of their financial markets and financial instruments. Therefore, subsidiaries in less developed countries can't provide information in more analytical format like those in advanced countries.

**Environmental Variations**

Environmental factors became more vibrant particularly after the recent phase of globalization. The significant vibrations include:

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- trends towards the erosion of national cultures and formations of global culture;
- establishment of World Trade Organization;
- increase in global business by five-fold after 1990;
- enlargement of 'European Union' and the introduction of 'Euro' – a common currency among the 'European Union' countries;
- increased mobility of human resources;
- information technology revolution and the emergence of virtual business;
- unprecedented manufacturing technological revolution and the emergence of global as well as customized manufacturing;
- wide spread use of out sourcing practice;
- adaptation of glo-cal strategy, i.e., think globally, but act locally;
- shift in political ideology: This includes shift from communistic/social welfare ideology to capitalistic/market-oriented and competitive ideology.

The phases as well as the nature of these shifts vary from country to country. In addition, the growth rate of environmental shifts is quite fast in some economies like China, India, Malaysia and South Korea. The long-run strategies need to be adjusted and readjusted in the fast growing economies.

In view of the variations in environmental influences among subsidiaries as well as different growth rates of environments, employees' performance across the subsidiaries can't be measured using uniform performance appraisal criteria and scale. However, one should view that the managers in various subsidiaries should adjust/modify the strategies from time to time based on environmental influences of the country concerned rather than implementing a fixed strategy crafted by the headquarters. As such, performance of subsidiary managers depends on how well they localize the global strategies and implements them efficiently. Therefore, appraising employee performance in MNCs is a challenging task.

**Validity of Performance Criteria**

Companies use different performance criteria-some based on end contribution to the company and some based on employee traits. The criteria concerning to the end contribution to the company includes: profits, return on investment, cash-flow, sales and productivity/input output ratios. Employee traits that can be used for evaluating performance include: dynamism, decisiveness, aggressiveness, initiative, judgement, adaptability, negotiation skills, social-relations orientation, pro-activity, ability to work in odd hours and punctuality. These criteria would be valid for local settings. But they may be quite inappropriate for foreign settings. Punctuality as well as dynamism are quite in appropriate for some of the developing countries like small island Pacific nations while they are highly essential in European countries.

Skills of negotiating with external stakeholders are not much needed in India, but they form the core of performance criteria in Papua New Guinea and other Pacific nations where the land and some of the natural resources are owned by the community rather than individuals.

**Notes**

Cultural and social environment, economic system and institutional set-up, political ideologies and structure that influence the business as well as the performance of managers vary from the parent country to the host country. Therefore, the performance criteria valid in the parent company may not valid in the host countries.

**Time and Distance Variations**

Performance of business activities in MNCs are complicated by the distance between parent company and subsidiaries. Added to this time variations from one country to another country where headquarters and subsidiaries operate complicate the task further, though, the information technology devices like video conferencing, e-mail, fax and telephone reduce the complexities to some extent. Therefore, environment that is close to face-to-face interaction can't be established in the working environment of MNC's headquarters and subsidiaries.

Measurement of Performance of employees working MNCs is challenging compared to those working in a domestic company as the employees in domestic companies can meet the colleagues face-to-face, while the employees of MNCs have a limited choice to do so.

**Varied Levels of Maturity and Skills**

People of different countries are generally strong in different skills, have different levels of maturity and are strong in different disciplines. For example, Indians are strong in mathematical skills and in logical thinking. Americans are strong in systematic analysis and sequence of operations. Some people are strong in technical operations, while some people are strong in management and soft skills. However, some people can perform certain jobs more productively than others. In some cases, employees of parent company are more productive than those of host country nationals. MNCs, therefore, should not adapt the same performance appraisal format and scale to measure the performance of employees of home country nationals and different host country nationals as well as third country nationals.

**Rater Competence**

The one who appraises the performance of employees of MNCs, i.e., those work in headquarters as well in subsidiaries is called the rater. Mostly, the raters are either the executives in headquarters or in subsidiaries and are the nationals of either parent country or host country. Various surveys indicate that 75% of top executives in MNCs have had no experience working in foreign countries and the top executive in about 80% of the MNCs have had no work experience in foreign countries.

Most of the MNC's executives without living and working in a foreign country can't have the knowledge and experience of a foreign employee or an expatriate employee. They do not know the social, business and work challenges that the foreign employees face. It is doubtful that such raters possess required competence to appraise the performance of foreign employees or expatriates.

An Australian national manager working for a Japanese company in Australia appraises the performance of an Indian subordinate who is also working in Australia. He has had no experience of expectations of a Japanese company or the social and business challenges faced by an Indian in Australian environment and also struggling

**Notes**

to fit into the organizational culture of a Japanese company. In another similar example, how can an English manager working for a Swiss chemical company in Thailand possess the competence to evaluate the performance of a Thai subordinate within the local context by following the company guidelines. The parent company guidelines can't be applied in the host country environment.

Some MNC's headquarters officers/managers evaluate the performance of foreign employees/expatriates working in subsidiaries from an "out of sight, and out of mind" perspective without understanding the problems and the challenges the latter face in foreign social and work environment. The raters have no idea of the areas to be rated of the foreign employees. In fact, foreign employees are left alone from strategic activities of the parent company and from their home office superiors.

MNCs measure the inappropriate work areas of the foreign employees and often ignore the social, cultural, risk and security challenges that the foreign employees face due to the incompetence and inexperience of the raters (See Box 4.14). Added to this, the performance appraisal system would be designed poorly as the designers may not have the adequate knowledge of the foreign working and living environment. In addition, absence of top management's commitment and understanding of overseas business realities further reduces the validity of performance appraisal ratings.

**Rater Bias**

The problems with subjective measure have opportunity for bias. The rater biases include:

- (a) Halo effect,
- (b) The error of central tendency,
- (c) The leniency and strictness biases,
- (d) Personal prejudice and
- (e) The recency effect.

**Halo Effect:** It is the tendency of the raters to depend excessively on the rating of one trait or behavioural consideration in rating rather than considering all the traits and behavioural aspects. The raters fail to understand all the traits and behavioural aspects of the foreign employees due to lack of understanding of foreign employees' activities and the challenges they face. Therefore, the raters appraise the performance of foreign employees based on one factor with which they are familiar with.

Managers from the cultures different from those of foreigners misinterpret each others behaviours. For example, the drive of Chinese employees in getting things done quickly sometimes is misunderstood as corruptive practice in Australia. These misinterpretations sometimes are based on a preconceived notion and attitude on the part of the managers and raters that Chinese resort to corrupt practices.

An American has a preconceived notion that women on maternity leave do work from home whenever they can. This American, when he was working in France, was unaware of the legal provisions of maternity leave in France. The legal provisions for maternity leave in France indicate that women are allowed six months of maternity leave, and during that time they are not legally allowed to do any work related to their jobs. Two of the secretaries of the American manager were on maternity leave at one

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## BOX 4.14: SOUTH KOREANS KIDNAPPED IN AFGHANISTAN

KABUL, Afghanistan - Taliban militants threatened Friday to kill a group of abducted South Korean Christians, including 15 women, within 24 hours unless the Asian nation withdraws its 200 troops from Afghanistan. South Korea said Saturday it plans to withdraw its forces by the end of this year as scheduled.

Foreign Minister Song Min-soon told reporters in Seoul that 23 South Koreans were kidnapped and indicated they are safe. A purported Taliban spokesman said Friday that the group was holding 18 Koreans.

In the largest abduction of foreigners since the fall of the Taliban regime in 2001, several dozen fighters kidnapped the South Koreans at gunpoint from a bus in Ghazni province on Thursday, said Ali Shah Ahmadzai, the provincial police chief.

"They have got until tomorrow (Saturday) at noon to withdraw their troops from Afghanistan, or otherwise we will kill the 18 Koreans," Qari Yousuf Ahmadi, who claims to speak for the Taliban, told The Associated Press on a satellite telephone from an undisclosed location. "Right now, they are safe and sound."

On Saturday, Ahmadi reiterated that the hostages would be killed if the demands weren't met.

South Korea has about 200 troops serving with an 8,000-strong U.S.-led force, which is separate from the 40,000-member NATO-led force.

"The government is in preparations to implement its plan" to pull its troops out of Afghanistan by the end of this year as previously planned," Song said. South Korea's government has not received any official demand from the militants, he added.

South Korea plans to send officials to Afghanistan later Saturday for consultations with their Afghan counterparts to try to secure the release of the South Koreans.

Afghanistan has also set up a special task force and pledged that it will do everything to win the South Koreans' freedom, Song said of his telephone conversation with his Afghan counterpart.

It was unclear what the kidnapped Koreans were doing in Afghanistan.

A year ago, hundreds of South Korean Christians were ordered to leave

Afghanistan amid rumors they were proselytizing in the deeply conservative Islamic nation. A member of that group promised they would return to the country in smaller groups, but denied charges of spreading Christianity.

South Korea's Yonhap news agency reported that most of the hostages were members of the Saemmul Community Church in Bundang, just south of the South Korean capital, Seoul.

An official at the Presbyterian church confirmed 20 of its members were in Afghanistan for volunteer work. The group left South Korea on July 13 and was to return on July 23, she said, speaking on condition of anonymity because she was not authorized to talk to the media.

Outmatched by foreign troops, the Taliban often resort to kidnapping civilians caught traveling on treacherous roads, particularly in the country's south, where the insurgency is raging. The tactic hurts President Hamid Karzai's government by discouraging foreigners involved in reconstruction projects from venturing into remote areas where their help is most needed.

The Koreans were seized as they traveled on a privately rented bus along the main highway from Kabul to the southern city of Kandahar, Ahmadzai said. The militants drove the bus into the desert before abandoning the vehicle and forcing the group to walk for about one hour, he said.

He said the group was in the northern city of Mazar-e-Sharif before it arrived in Kabul.

There were conflicting reports on how many Koreans were kidnapped.

The South Koreans' bus driver, released late Thursday, said there were 18 women and five men on the bus, Ahmadzai said. The Taliban spokesman said 15 women and three men were seized.

The abductions came a day after two Germans and five of Afghan colleagues working on a dam project were kidnapped in central Wardak province.

Ahmadi said the Taliban were also holding the two Germans, and threatened to kill them if Germany did not withdraw its 3,000 troops from a NATO-led force by noon Saturday — the same deadline as he gave South Korea.

## Notes

Germany's Foreign Ministry said it was "aware of the statement by the so-called spokesman of the Taliban" but that it contradicted a statement the previous day that the Taliban was not holding the Germans.

"We will continue to carefully monitor developments of the situation," ministry

spokesman Martin Jaeger said. "All necessary steps have been taken. The crisis team continues to work toward a swift release of the two kidnapped men."

On June 28, another German man was kidnapped in western Afghanistan, but was released after a week.

(Source::[http://news.yahoo.com/s/ap/20070721/ap\\_on\\_re\\_as/afghan\\_kidnappings](http://news.yahoo.com/s/ap/20070721/ap_on_re_as/afghan_kidnappings)) (Accessed on 21/07/2007).

point of time, and he requested them to work from home and one of the secretaries, due to the urgency of work, complied with the boss's request. The American's France boss was furious of American's request, when the former learnt about it. Consequently, the France boss rated the American at lower level than what he deserved.

**The Error of Central Tendency:** Some raters follow play safe policy in rating, by rating all the employees around the mid-point of the rating scale and avoid rating the people at both the extremes of the scale whatever they deserve. They follow play safe policy because of answerability to management or knowledge about the job and person he/she is rating or least interest in his/her job or due to the functioning of neurons of the rater in a safe play approach (See Box 4.15). An Indian manager while working in a chemical company in Indonesia learnt that Indonesians prefer to be equals culturally. While appraising the performance of his Indonesian subordinates, the Indian manager used to rate them more or less equally at around the mid-point of scale, in order to fit the rating to the cultural norms.

**The Leniency and Strictness:** The leniency bias crops up when some raters have a tendency to be liberal in their rating by assigning higher rates consistently and such ratings do not serve any purpose. Equally damaging one is assigning consistently low rates. A Swiss manager working in Malaysia observed that his Malaysian subordinates have a feeling that they are not talented employees like Westerns. Swiss manager, used to rate the Malaysian subordinates very high of the scale in order to wipe out their feeling and encourage them. In consequence, Malaysian subordinates developed overconfidence and refused to attend a training program arranged by their boss.

**Personal Prejudice:** If the rater dislikes any employee or any group, he/she may rate them at the lower end, which may distort the rating purpose and affect the career of those employees.

An American manager used to rate all Indian employees working in USA as his subordinates in a software company at the lower level of the scale with a personal prejudice that the Americans are losing job opportunities particularly due to Indians in software industry. This practice was due to the raters prejudice against Indian group.

**The Recency Effect:** The raters generally remember the recent actions of the employee at the time of rating and rate on the basis of these recent action–favourable or unfavourable – rather than the whole range of activities. A Korean manager working in Malaysia performed his job excellently, but his performance at the end was rated by his Malaysian supervisor as 'poor' in view of the fact that the company lost one of



## Notes

**BOX 4.15: LEADERSHIP NEUROSCIENCE AND NEUROECONOMICS: HOW DO LEADERS BEHAVE?**

First there was “neuroeconomics,” a burgeoning field that uses brain scans to explore economic decisions, such as why we won’t dump a dog stock. Then came “neuromarketing,” the sometimes controversial technique of using functional magnetic-resonance imaging (fMRI) to study how our brains respond to pricey Super Bowl ads or, say, brand images of Coke (KO) or Pepsi (PEP).

And now, thanks to an aspiring coaching guru, we have “neuroleadership.” The catchy term was coined last year by David Rock, a leadership consultant who has been importing notions from neuroscience to help explain managerial behavior. Rock is just one of a small but growing group of people connecting the two fields. Business school professors at Arizona State University and Emory University are working with neuroscientists to use electroencephalograph (EEG) machines and fMRIs to study the brain waves or images of executives rather than those of traditional undergraduates. And in May, Rock helped organize a NeuroLeadership Summit in Asolo, Italy, where scientists mingled with executives from companies such as fashion house Hugo Boss and agribusiness giant Cargill. Participants ponied up \$3,500 to attend the summit, which was held at CIMBA, an MBA program that has made the neuroscience of leadership core to its curriculum.

While neuroleadership may have a creepy Brave New World ring to it, don’t worry. Your boss isn’t going to scan your brain and compare it to Jack Welch’s gray matter anytime soon. The explosion of fMRI research over the last decade has led to compelling findings on how our brains make decisions or weigh ethics, but the research has often been overhyped. And like most newfangled trends that capture the minds and checkbooks of executives, neuroleadership may hold promise for managers, but it also may mean profits for some people plugging it. “It’s full of possibilities,” says University of Southern California leadership sage Warren Bennis, who has long been interested in neuroscience’s lessons for leaders. “What worries me is people being taken in by the language of it and ending up with stuff we’ve known all along.”

Still, the people linking the two fields believe the “hard” science of the brain will someday offer fresh insights for the “soft” art of leadership. At Emory, researchers asked 16 executives to respond to

PowerPoint slides about moral quandaries, such as acting on privileged information, while inside an MRI machine. They found that managers weighing ethical dilemmas use the part of their brain associated with early memories, which could mean moral thinking is formed early in life. This could indicate that sending leaders with an appetite for Enron-style accounting through ethics seminars will do little good, says Roderick Gilkey, a management and psychiatry professor who was part of the study.

And in what they have dubbed “The Leadership Neuroscience Project,” Pierre A. Balthazard and David A. Waldman, both at ASU’s School of Global Management & Leadership, have used EEGs to monitor the brains of 44 business leaders while they discussed scenarios such as layoffs. Working with neuroscientists, they hope to eventually find patterns in effective leaders’ EEGs and use the readings to supplement training. They also plan to have students in two new master’s programs go through EEGs this fall.

Rock and collaborator Jeffrey M. Schwartz, a research psychiatrist at the University of California at Los Angeles, have been taking a different tack, applying broader themes from neuroscience to leadership rather than trying to map individual managers’ brains. One of their main ideas emphasizes that mindful, focused attention on new management practices, rather than on old habits, can rewire the brain. Such concepts have already attracted fans: McKinsey & Co. uses Schwartz’s lingo in client workshops. “I think they’re very leading edge,” says Michael Rennie, a leader of the firm’s Organization Practice. An article by the pair in Booz Allen Hamilton’s Strategy + Business journal was the publication’s most downloaded article last year.

Several companies have caught the neuroleadership bug, too, peppering training for managers with talk of their amygdalas and prefrontal cortexes. After attending the summit in Italy, Jim Merwin, Cargill’s manager for learning design and development, says he is planning to use the duo’s ideas in some of the \$75 billion private company’s training programs. And at American International Group’s (AIG) Retirement Services Div., Jim Smalley, director of training and leadership development, has been working with Rock to school managers. One insight: Focus on just three goals to “quiet all the



**Notes**

background noise in the brain," says Smalley. The brain, they're reminded, can hold only a few ideas at a time in its working memory.

If such concepts strike you as familiar management axioms, you aren't alone. USC's Bennis found Rock and Schwartz's article to be "filled with banalities" about leadership. And some summit attendees intrigued by neuroscience's promise for business were turned off by what they saw as Rock's attempts to carve out his own brain-based consulting niche. Rock says business leaders are drawn to scientific explanations; Schwartz says he

hopes managers will be receptive to his attempts "to create a new language for self-awareness."

Some, including a handful of managers at AIG, Cargill, and elsewhere already are. Executives have long turned to other fields to give them a new vocabulary to speak about change. "When you start talking about things like behaviour change and psychology," says McKinsey's Rennie, "[executives'] eyes glaze over. What helps them change their behavior is a cognitive frame." And whenever they're ready, Rock will surely be happy to sell them one.

Source: <http://finance.yahoo.com/> (Accessed on 12/12/2007).

the major customers due to the religions implication of Korean manager's action. In fact, the act of the Korean manager was due to his ignorance of the Muslim religions practices rather than international.

**Host Environment**

Environment in the host country makes significant difference over the performance of foreign employees. The environment that affects the performance of expatriates includes both internal and external aspects of environment. The internal aspects of environment include organization structure and nature of ownership. Flat structures and simple structures enable the expatriates to perform efficiently. Employees perform efficiently in fully owned subsidiary rather than in a joint venture with the local investors. This is due to the fact that organizational culture would be complicated in joint ventures as it is the output of interaction of at least two distinct cultures. Expatriates fail to perform efficiently in a newly established firm as the operations/activities of newly established company are influenced widely by the external environment. In addition, employees both national and expatriates are in the transition stage of understanding and interacting with each others' group in newly established firms. Therefore, performance of employees in newly established firms is at the lower side of the scale.

The external aspects of the environment like social and cultural issues, political and economic issues affect the employee performance. In addition, availability of school and other educational facilities, medical and hospital facilities, recreational facilities, security situation, and transportation facilities in the host country have their bearing on foreign employee performance.

**Cultural Adjustment**

Adjustment of the employee to the organizational culture and country's culture and adjustment of employee's family members to the country's culture significantly influence the employee's performance. Though the employee is technically competent and posses all kinds of job skills and knowledge may fail to perform as he may fail to deal with superiors, subordinates and colleges as well as external customers and other stakeholders. In addition, employees may encounter cultural problems in the society. Therefore, adjustment of employee and his/her family members with cultural aspects should be considered while evaluating his/her performance.

**Notes**

The analysis of challenges of performance appraisal of expatriates reveals that it is rather critical to measure expatriate performance. Even, it would be difficult to measure the performance of host country nationals/parent country nationals working in the headquarters as they also encounter cultural issues while dealing with foreigners

The next question is what to be measured? Is it job knowledge, skills, behaviour, traits, output and interpersonal implications? Thus, coverage of performance appraisal areas is another issue to be sorted out while measuring performance of expatriate employees.

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#### 4.5 AREAS TO BE APPRAISED

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

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

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

Fig. 4.13 presents types of employees of MNCs based on assignments.

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

- **The Strategist:** The strategist is the one who studies the environment under which the subsidiary operates, identifies the opportunities for new products/ services and new markets, identifies the possible threats, analyses the related strengths and possible weakness and formulates the best strategy based on SWOT(strengths, weaknesses, opportunities and threats) analysis to achieve the subsidiary goals. He/she stays in the host country for short duration in different intervals to formulate the strategy and oversee the implementation of the strategy.
- **The Consultant:** The consultant is the one who is assigned with a specific task of providing advice on an operational issue or a new business.
- **The Innovator:** The innovator is the one who is assigned with a task of innovating a new product/service based on the resources and/or market of the host country or creating new markets or opportunities for new markets
- **Skills Transferor:** Skills transfer is the one who is assigned with task of developing the host country national employees of the subsidiary. He/she

stays in the host country for a short duration and trains the host country nationals to take up and perform the jobs on their own.

**Notes**

Having discussed different types of international assignees, now we direct our discussion on the roles of international assignees as areas to be appraisal depend on roles of foreign employees. Questions that arise at this juncture include: What are the role expectations of international assignees and how they differ from national employees? Would there be conflicts of role expectations from those work in parent company and subsidiary?

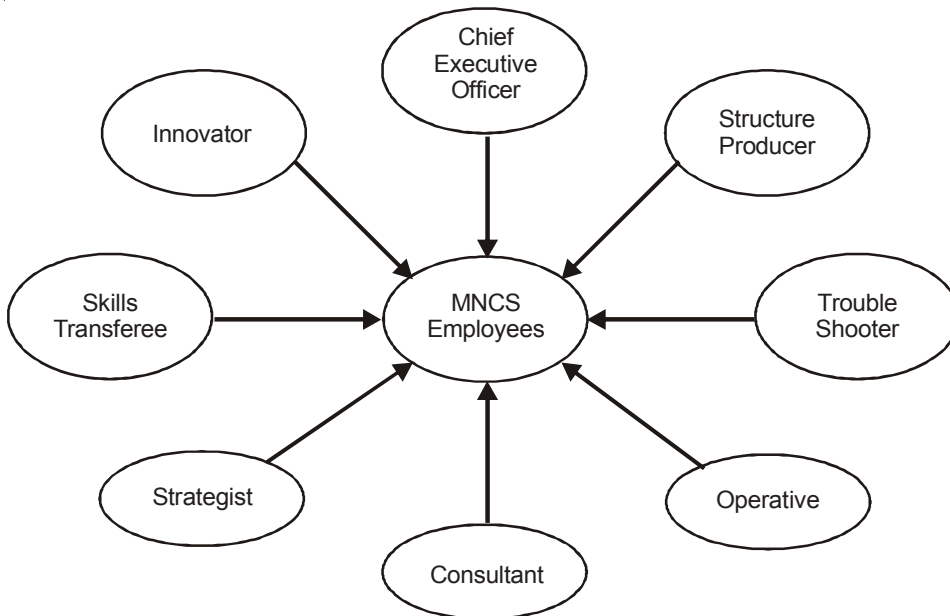


Fig. 4.13: Types of Employee of MNCs Based as Assignment

**Organizational Role Expectations**

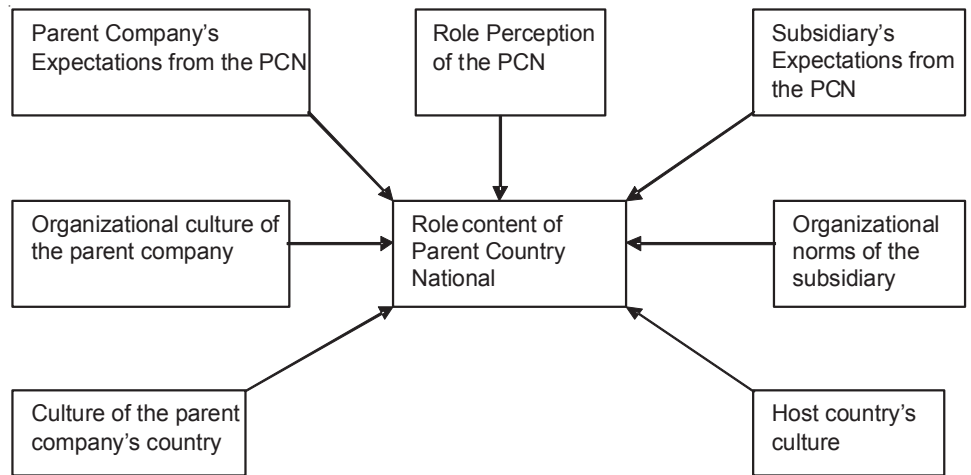
Parent companies predetermine the roles and expectations of these roles from the parent country nationals before departure for the subsidiary. American expatriates working in Hong Kong exhibited their previous managerial behaviour in Hong Kong. This was due to the failure of the parent company in providing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

The parent company, parent country national and subsidiary should have the common role conception. Role conception is an interactive output of parent company expectations, subsidiary expectations, organizational norms of the subsidiary and cross-cultural norms of the parent country and the host country as presented in Fig. 4.14.

Role conception of the third country national would be more critical. Parent company's expectations, role perception of the TCN, subsidiary company's expectations, organizational culture of the parent company, and subsidiary company, culture of organizations where TCN worked previously, country culture of the third country national and host country culture influence the role content of the third country national. Fig. 4.15 present the role content of the third country national.

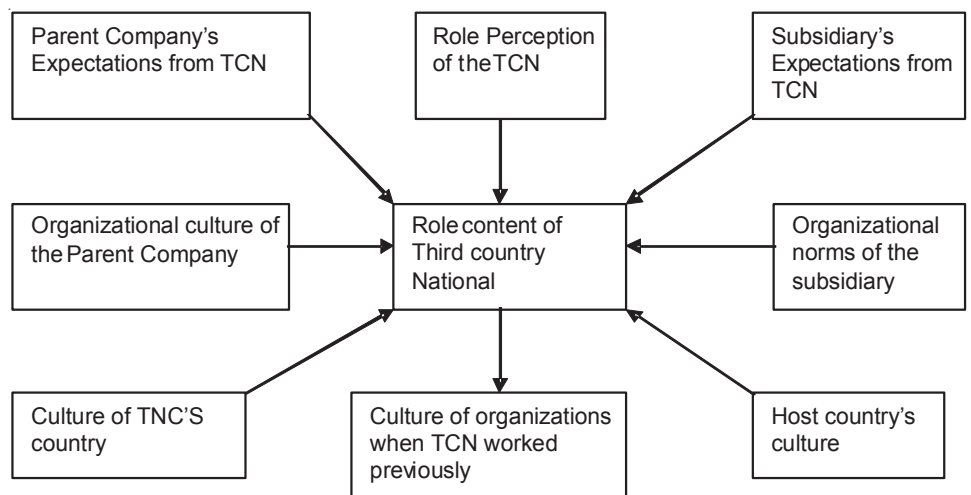
**Notes**

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



**Fig. 4.14: PCN's Role Conception**

The critical aspect of the role is the task performance. However, task performance does not take place on its own. In fact, the host country environment, and the parent company's expectations influence the task performance. For example, the employee who is successful in performing a task in parent company need not be successful in



**Fig. 4.15: TCN's Role Conception**

Notes

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

Thus performance appraisal of the foreign employees should consider the role rather than just task. Role is broader than the task. Role includes task and various other factors like leadership skill, inter-personal relations, team building skills, understanding and adapting towards organizational culture and culture of the host country at work place, unlearning the parent country and other countries' culture that is unacceptable in the host country, motivational skills, emotional balance and stability skills, managing environmental influences, maintenance of integrity, and meeting the conflicting interests of parent company and subsidiary. Fig. 4.16 presents various aspects, of role of foreign employees. Various aspects of the role are interconnected and interact among themselves. The interactive output of these aspects is the role performance of the foreign employee. The role performance of the employee can be measured in terms of task output, relationship output and the satisfaction level of the stakeholders concerned.



Fig. 4.16: Role Aspects of Performance of Foreign Employees

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

**Notes**

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

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

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

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

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

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

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

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

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

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

**Family Roles**

**Notes**

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

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

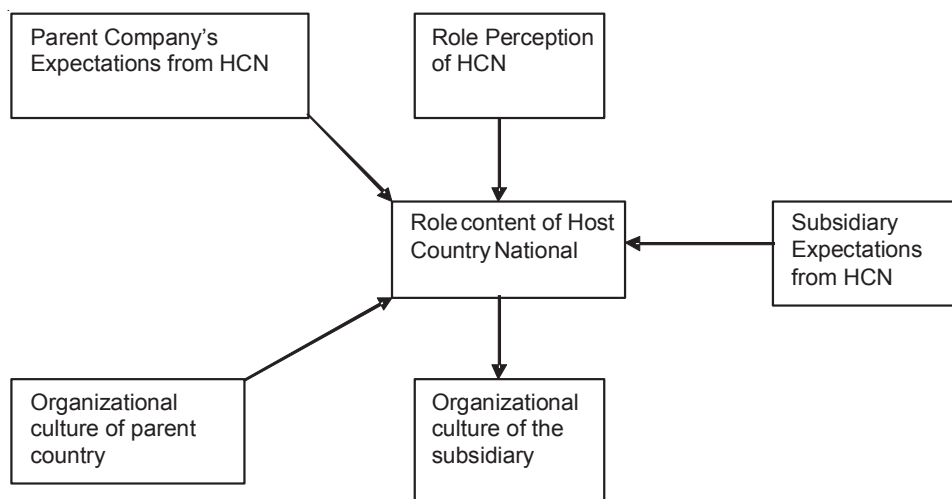
**Implications**

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

**Areas to be appraised for HCNs**

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

Therefore, areas to be appraised of the host country nationals include, skills of understanding varied cultures and behaviours, cultural adaptability and behaviour modification based on others’ cultures, behaviour and situations in addition to job tasks. Fig. 4.17 presents the role content of the Host Country National (HCN).



**Fig. 4.17: Role Conception of Host Country Natinal (HCN)**



**Notes**

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

Thus, areas to be appraised vary from one type of the employee to the other due to the variations in expectations of parent company and subsidiary, cultural issues and other varying roles of employees. However, they include cultural adaptations, adjustment/initiating to the institutions and facilities of parent country as well as host country, in addition to the conflicting task requirements of the parent company, host company and client company in some situations.

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

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**4.6 WHO SHOULD APPRAISE THE PERFORMANCE?**

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Performance of the employee is normally appraised by the immediate superior in case of a domestic company. It is rather difficult to identify the immediate superior of a foreign employee working in a host company as the host company managers as well as parent company manager supervise/oversee the foreign employee. Sometimes, the manager of a client company also supervises the employee. For example, the Oracle Corporation operating in India provides the services to a hospital in UK. The performance of Malaysian working in Indian subsidiary of the Oracle Corporation is normally monitored by the supervisors/managers of Oracle Corporation, USA, Indian subsidiary and of the hospital in UK. Therefore, most of the MNCs use multiple appraisers. These multiple appraisers mostly do not directly supervise the performance of the employee and/or are not concerned with employee activities. In addition, some of them are physically located far from the employee's work place.

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

**BOX 4.16: FIVE ESSENTIAL STRATEGIES FOR MANAGING UP****Notes****I Didn't See it Coming**

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

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

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

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

**Never outshine the master:** You're making a big mistake if you're outsmarting, outwitting, or outmanoeuvring your boss. Always do your best, but do it in a way that complements your boss' strengths.

**Make your boss look good:** Engaging in a smart game of professional flattery positions you as a person who is not only ambitious, but also supports company objectives.

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

**Bring solutions, not problems:** The smartest way to succeed and get promoted is to be the person that your boss looks to first when there is something that needs to be done, managed, or fixed.

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

*Source:* <http://www.businessknowhow.com/manage/managingup.htm> ( Accessed on 20/12/2007).

Added to this practice of appraising the performance by multiple reviewers, MNCs, adapt 360-degree appraisal process, which further complicates the practice of appraising the performance. Various stakeholders like customers, bankers, government, suppliers, market intermediaries, trade unions, subordinates, colleagues, human resource professionals, superior in the parent company, superior in the subsidiary and certifying officer of the client company appraise the performance of employee under 360-degree appraisal system.(See Box 4.16).

Though, several stakeholders participate in the appraisal process, home country manager and host country manager play crucial role in appraising. Host country manager closely observes the performance of the employee while the home country manager monitors the career progression of the employee via performance management of the employee. Therefore, appraisal by the direct and immediate superior either in the parent company or in subsidiary supplemented by the parent company manager would be appropriate. These two managers would make use of the information of appraisals by various stakeholders in 360-degree appraisal process.

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## 4.7 SYSTEM OF PERFORMANCE APPRAISAL

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Performance appraisal for international employees is a 12-step process, viz.,

- (i) Establish performance standards based on job description, job specifications, cultural requirements and adaptability to foreign environment, talents in enabling family members to adjust to foreign environment.

**Notes**

Separate performance standards should be established for each category of employees of MNCs like PCNs, TCNs and nationals, short-term assignees, long-term assignees, immigrants and returnees.

- (ii) Communicate standards/expectations to employees as well as evaluators.
- (iii) **Deciding upon the performance appraisal format:** Different appraisal formats are based on various appraisal techniques. Appraisal format covers the areas based on the appraisal techniques adapted. Traditional techniques like graphic rating scales, ranking method, forced distribution methods, and checklist methods emphasize on traits. Thus, format based on traditional methods contains traits. Modern techniques of appraisal like critical incident method, behaviourally anchored rating scales, assessment centres and management by objectives emphasize on achievement of objectives/results. Thus, format based on modern techniques contain achievement of objectives/results.

MNCs may use either standard format or customize formats for each subsidiary. Some of the US MNCs tend to use the standard formats for parent country nationals as well as third country nationals and all other types of foreign employees. Using standard format may reduce the workload of human resource department in appraisal forms, but it creates a number of problems for the evaluators as well as appraisees due to variations in culture, factors of adaptability, language variations and systematic variations. Therefore, MNCs should not use the appraisal forms developed for domestic purposes/employees to foreign situations as well as employees. In other words, they should develop customized forms by incorporating the cultural aspects, environment adaptability aspects, language and systematic aspects concerning the group of appraisees.

- (iv) Measuring actual performance by following instructions by the evaluators through observation, interviews, records and reports.
- (v) **Frequency of appraisal:** Normally appraisals are conducted once in a year or in a six months interval. But, the problem in once in a year appraisal is the recency effect. The raters generally remember the recent actions of appraisee and rate on the basis of recent action/performance—favourable or unfavourable—rather than on the total activities. This is because, the raters “... often forget the details of what they have observed and they reconstruct the details on the basis of their existing mental categories.”

Too frequent appraisals may not be appropriate for certain types of foreign assignments like project assignments, consultancy assignments and training assignments. These assignees expect the feedback at the end of the total activity. In addition, the purposes of appraisals are for compensation package revision, employment contract renewal and need-assessment of appraisal's training and development. Quite frequent appraisals are not necessary to meet these purposes of appraisal. Added to this, frequent appraisals and feedback disturb the employee in his/her work direction and programming. Therefore, appraisal and feedback to employee can be once in year or six months or at the end of the assignment whichever is earlier.

- (vi) **Adjust actual performance due to environmental influence:** As discussed earlier, environmental factors and particularly cultural factors affect the actual performance. Therefore, the rater has to adjust the performance considering the nature and degree of environmental influences, had these factors are not in built in the appraisal form and mechanism.

## Notes

- (vii) **Compare the adjusted performance with that of others and previous:** Comparing the adjusted performance with that of others as well as previous performance ratings gives an idea of where the employee stands. If performance of all employees is ranked either too high or too low, there would be something wrong with the standards or job tasks or the rater.
- (viii) **Compare the actual performance with standards and find out deviations, if any:** Deviations may be positive or negative. If the actual performance is more than the standards, it is positive deviation and *vice-versa* is negative deviation. This exercise helps for adjustment of standards, if necessary.
- (ix) **Feedback to the appraise:** The appraiser have to communicate the actual performance to the employee concerned, listen to him/her with regard to their reasoning and adjust the performance rating either of the sides of the scale, if employee's reasoning provides additional input. Mutual discussion of the appraiser and appraisee makes the appraisal close to perfectness and ratings.
- (x) **Suggest changes in job analysis and standards, if any:** Based on the employee's feedback and explanation to the rating, as well as considering the cultural and environmental factors, the evaluator should suggest the changes in job description, job specification and standards of appraisal.
- (xi) **Consider the appraisal results for contract renewal and promotion:** MNCs should consider performance appraisal ratings for contract renewal of employment, and also for promotion. In addition, MNCs can also plan promotion as well as career planning and development based on performance ratings.
- (xii) **Plan for employee training and development:** MNCs should consider the performance appraisal information for employee training and development. MNCs, in doing so, should analyze the information very carefully as the performance ratings, sometimes, keep the cultural and other issues outside the purview of the ratings. Consequently, highly potential candidates may fail to produce high performance results. MNCs should consider various issues like:
- Demonstration of initiatives,
  - Realization of potentiality
  - Presentation of commitment behaviours
  - Exhibiting interpersonal relations
  - Proof of intelligence
  - Show causing distinctive capabilities and talents.

MNCs should consider the culture and environment of the country in deciding upon these factors as intelligence, behaviours, talent etc., are determined differently in different cultures. For example seeing eye-to-eye with the superiors is treated as arrogance in Japan and its is treated as normal and essential factor for job performance in USA. Similarly culture affects the communication style, group and team orientation and hierarchies in organizational structures. Therefore, MNCs should consider all these factors in assisting the training and development needs based on performance appraisal information.

## Notes

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#### 4.8 PROBLEMS OF PERFORMANCE APPRAISAL

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As indicated at the beginning of this chapter, Performance appraisal of international employees is critical and challenge due to the following reasons:

- **Content Bias:** Most of the MNCs view the international performance management equal to that of domestic performance management and as such, they include only task factors in the content to be appraised by ignoring the culture and environmental factors, where the latter play a dominant role in the performance of international employees. In fact, almost all the employees selected for international assignments would be competent for doing the job for which they are selected.
- **Ineffective Raters:** MNCs use the multiple raters for appraising the performance. However, ratings of the superior in the parent company are mostly considered for all significant decisions like contract renewal, promotion, revision of compensation package and identifying training and development needs.

But the significant lacuna in this mechanism is that the superiors in the parent company, in most cases, do not have the experience of working in a foreign country or in a subsidiary environment. They lack the knowledge of organization culture of the subsidiary. In addition, they are blind of economic system and political factors that influence the job performance of a foreign employee to a greater extent. Thus, the rater of the parent company would not be effective in most cases in appraising an employee in an environment which is mostly strange for him/her.

In addition, the rater in the host country though familiar with the culture and environment of the country, may not be aware of employee's culture. Thus, the raters would be mostly in effective.

- **The Recency Effect:** The raters generally remember the recent actions of the employee at the time of rating and rate on the basis of these recent actions – favourable or unfavourable rather than on the whole of activities.
- **Distant Work Places:** Foreign employees who work on projects can't be directly observed by even the host country supervisor. Similarly, the performance of other employees working in the field at different places cannot be directly observed by the raters. Added to this, the parent country superior who never observes the employee at work rates the performance.
- **Appraisal Forms:** Majority of the MNCs tend to use the same standard appraisal forms for both the domestic employees as well as all kinds of foreign employees like PCN, TCN, long term assignees, short-term assignees, project managers, consultant, skills transfers etc. These forms would not be suitable for different types of employees and countries due to cultural and environmental variations.(See Box 4.17).
- **Failure of the Superiors in Conducting Appraisal Interviews:** Raters of the parent company rarely conduct appraisal interviews, due to absence of physical proximity and lack of knowledge of work activities as well as cultural aspects of the appraisers.
- **Use of Performance Data:** Some of the MNCs make the contract renewal, promotion, compensation package and employee training and development decisions based on factors other than performance appraisal data and

information like personal network, personal prejudice, and favouritisms. In other words, they do not use the performance appraisal data for which it is meant. Thus, performance appraisal would be a routine and ritual function.

## Notes

**BOX 4.17: THE 10 WORST CORPORATE PRACTICES (PERFORMANCE APPRAISAL)**

Forced ranking systems, love contracts, and anti-moonlighting practices all sour the way people feel about their jobs and employers

If you want an example of corporate bone-headedness, look no further than the trend toward “love contracts,” where companies require employees to sign legal agreements when they inconveniently begin romantic relationships with folks who happen to be employees of the firm. The idea is that once you’ve signed a contract specifying that the romance is consensual, the company is no longer liable for issues that might arise from the relationship.

This is one of those examples of a committee sitting around the conference room just long enough to arrive at the worst possible solution to the problem (the problem being sexual-harassment charges). For one thing, a person who signs a contract affirming the consensual nature of a relationship might balk at having to head back to HR to revoke that agreement a few weeks later. Besides that, a boss could make hiring or pay decisions based on being attracted to a subordinate, and there’s no contract that will solve that problem. In any case, love contracts are intrusive and create as many problems as they solve. They represent the worst of corporate silliness, which is why they’ve made our list of the 10 Worst Corporate Practices this year, with some very good company. Read on!

**Forced Ranking Systems:** These are a pox on corporate leadership ideals. They’re arbitrary and work against efforts to encourage teamwork and build morale.

**Stealing Miles:** If my tush is in an airline seat 30,000 feet above the ground (or even worse, sitting on a runway for 11 hours), I deserve every frequent-flier mile those trips earn. Companies who steal their employees’ frequent-flier miles do not deserve us as employees or as customers. Shame on them!

**Love Contracts:** Because they couldn’t come up with a more intelligent way to combat sexual-harassment charges, a few bone-headed companies have established “love contracts,” which they expect employees involved in romantic relationships with one another to sign.

That’s just goofy! We should be talking with employees and managers about appropriate boundaries and making it easy to report inappropriate behaviour—not shoving contracts in their faces.

**Anti-Moonlighting Policies:** I believe that we shouldn’t compete with our employers. If I design kids’ clothing for you, I shouldn’t have my own kids-clothing design company on the side. But anti-moonlighting policies go further, preventing office employees from tending bar for a few bucks on Friday night or singing Ave Maria at a wedding for a fee. That’s an outrage. Companies should manage the work we perform for them, not our free time.

**Salary Verification Requirements:** Let me get this straight: You expect me to trust that you will provide a great work environment and the training I need and generally live up to what you promised me at the interview, but you don’t trust me to faithfully report what I earned last year? Employees who demand proof of past earnings (in the form of last year’s W-2) should hire the second-rate employees they deserve, not folks like you.

**“Stitch-level” Dress Code Policies:** Every employee should be made aware that your company expects professional attire in the workplace. No argument there. But overly detailed dress-code policies that delve into fashion terms (peplums and flounces) are an insult to intelligent adults. HR people should stay out of our closets and hire only people who wouldn’t dream of dressing inappropriately for work.

**Outsourced Employee Relations:** Outsourcing saves money, so I can’t get too worked up when a company outsources dental plan administration, for example. But too many employers have outsourced employee relations so that when you have a problem with your manager, you have to call 1-800-I-Have-A-Problem-With-My-Manager. Employee relations is an on-site function, whether it’s a part-time assignment of the boss’s assistant (properly trained) or the responsibility of a roving HR rep. Nothing good can come of doing otherwise.

**Radio Silent Recruiting:** I’ve written about the cold shoulder that many



**Notes**

employers give job seekers. Do companies think that these folks don't buy products and services, too? One of the most obnoxious developments of the past 10 years is the horrendous way employers treat those looking for work. One hopes that the wheel of karma will turn quickly enough to set these companies straight.

**Internet Snooping Programs:** In today's work environment, online activity is what personal phone calls were 20 years ago: a fact of life. Everyone indulges a little bit, and companies act like they're horrified (even though managers do the same thing). Internet snooping programs

that track an employee's every keystroke and visit to eBay send the message: "We managers can't manage your results, so we'll manage your activities instead." If a great employee spends.

20 minutes a day recharging his batteries browsing blogs, good for him or her. May be that's what makes that employee a star.

**Golden Parachutes for Non-performance:** I don't mind if my CEO earns 400 times as much as I do if he does his job! Shareholders should push back against parachutes that generously reward the failures of departing leaders.

Source: [http://images.businessweek.com/ss/07/04/0409\\_worst\\_mgt/index\\_01.htm](http://images.businessweek.com/ss/07/04/0409_worst_mgt/index_01.htm).

## 4.9 HOW TO MAKE PERFORMANCE APPRAISAL EFFECTIVE?

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

- **Reliability and Validity:** Performance appraisal system should provide reliable and valid data and information. The techniques/methods of appraisal should satisfy the conditions of inter-reliability. Appraisals must also satisfy the conditions of validity of measuring what they are supposed to measure.
- **Appraisal Should be Relevant:** The appraisal technique should measure the performance and provide information for which it is designed or planned. The techniques should be designed covering the areas and content of the job based on the purpose of the appraisal. Purpose of appraisal may be for contract renewal, promotion, training and development, deputation or new assignment and career planning and development.
- **Customization of Appraisal Forms:** Different factors influence the performance of different types of MNCs like PCNs, TCNs and HCNs. In addition performance appraisal requirements of parent company as well as various subsidiaries vary significantly. Therefore, MNCs should design different appraisal forms based on the factors that affect the performance of different kinds of employees in different organisations. Thus, customized forms incorporating the language and other unique requirements should be designed rather than adapting a standard form.
- **Consensus of the Appraiser and Appraisee:** International performance appraisal should consider several issues that can't be known by the appraiser as well as the designer of the appraisal form. The appraisee knows these issues. Therefore, the appraiser and appraisee, in consultation should design the form, content and consider the nature and degree of influence of various factors. Therefore, the consensus helps to design relevant form and appraise the relevant areas. Further, the appraiser secures the acceptance of the appraisee regarding the ground realities of foreign assignment.
- **Open and Continuous Communication:** Most foreign employees want to know continuously how well they are performing on the job. An effective



appraisal system should provide needed feedback on a continuous basis. Appraisal interviews should permit both the appraiser and appraisee to learn about the gaps and adjust the performance ratings and formulate the performance management policies for the future. To this end the raters should clearly explain their performance expectations to the appraisees quite in advance of the appraisal period. Once, it is known, employees would work to that end.

- **Sensitive to Ground Realities:** Performance appraisal forms, appraisal procedure and evaluators should be sensitive to the changing and varying ground realities related to cultural factors, language, semantics, foreign political factors, trade unions, government policies and functioning.
- **Appraisee's Access to Results:** Appraisee should know the rules of the game. They should receive information and adequate feed back about the performance results on continuous basis in order to correct the performance. Employees could not perform better without having access to the performance rating information.
- **Easy to Operate:** Performance appraisal forms as well as procedure should be easy to operate to the appraiser as well as the appraisee. It should not be complex.
- **Rater's knowledge of the Appraisee:** The rater should have the knowledge of the appraisee, appraisee's work, behaviour, culture, organizational culture, environmental factors affecting the appraisee's work and so on so forth. In other words, the appraiser should be in direct and close observation of the appraisee and his/her work. (See Box 4.18).

## Notes

### BOX 4.18: 500 TCS EMPLOYEES QUIT AFTER APPRAISAL

Coinciding with cost-cutting drive in Indian IT space amid fears of recession in the United States, the country's largest software exporter Tata Consultancy Services on Tuesday said that about 500 members of its staff have 'voluntarily resigned' after an annual performance check.

"Employees with experience of two years and above across the company who were unable to meet the performance requirements of our company are asked to look for other jobs commensurate with their abilities," TCS spokesperson Pradipta Bagchi said.

However, he asserted that no employee has been sacked or fired. As a policy the only time that TCS dismisses people is for disciplinary reasons, he added.

"This is not an exceptional thing, it happens every year and it is part of our annual performance exercise. In TCS, everyone has to go through an appraisal cycle where they are rated between 1 and 5 depending on their performance. If in one appraisal cycle anyone is rated below 2, we put them on PIP (performance improvement plan).

"Under this they are given extra training. Even after this if their rating is below 2, then they are asked to look for other jobs," Bagchi said.

Even last year, nearly 500 employees had to leave the company on performance ground.

TCS has added 7,522 employees in the third quarter ended December 31, taking the number of its employees to 108,229.

The move comes close on the heels of global IT major IBM reportedly showing the door to a large number of its entry-level trainee programmers across major offices in the country on the grounds of performance.

Although IBM has confirmed the move, but they declined to specify as to how many trainees have been dismissed. However, sources suggest that the number could be in hundreds.

When asked about the sudden job cuts, the IBM spokesperson said it is a continuous process and is meant to validate the quality of employees.

"IBM is driven by a high-performance culture, a place where employees are able

**Notes**

to contribute at the upper limits of their potential and continually build market-valued skills and capabilities in both formal training and experiential learning. In support of that expectation on the part of our workforce, we are pioneering new ways for our people to certify their skill levels," the spokesperson added.

However, IBM India management is reluctant to go into the details of the tests

that have been conducted, citing it as an HR exercise.

Asked whether it is related to the company's performance, the spokesperson said it is a continuous process and has got nothing to do with the company's performance.

Incidentally, TCS also plans a 1.5 per cent cut in variable salaries of its employees in the fourth quarter, as it fell short of certain financial targets.

Source: <http://www.rediff.com/money/2008/feb/05tcs.htm> (Accessed on 5/2/08).

#### 4.10 DEVELOPING INTERNATIONAL STAFF AND MULTINATIONAL TEAM

"The aim in a global business is to get the best ideas from everywhere. Each team puts up its best ideas and processes – constantly. That raises the bar. Our culture is designed around making a hero out of those who translate ideas from one place to another, who help somebody else. They get an award, they get praised and promoted." – Jack Welch, CEO of GE

Foreign assignments have long been recognized as an important mechanism for developing international expertise – for both management and organizational development. Establishing truly global operations means having a team of international managers (PCNs, HCNs, and TCNs) who are available to go anywhere in the world. To develop such teams, many multinationals are conscious that they need to provide international experience to many levels of managers (regardless of nationality) and not just to a small cadre of PCNs.

One technique used to develop larger pools of employees with international experience is through short-term development assignments ranging from a few months to several years. However, some very successful multinationals, such as the Swedish-Swiss conglomerate ABB, have carried on the practice of developing a small cadre of international employees rather than internationalizing everyone. International job rotation, therefore, is one well-established technique for developing multinational teams and international operators. It may be supported by PCN, TCN, and HCN attendance at common training and development programs held either in the parent country, or regional centres, or both. The Global Leadership Program at the University of Michigan is an example of externally provided training programs. 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 program utilizes 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 Program is to produce individual with a global perspective. The success of such programs depends on participants being able to apply these skills in their home location and assist in the development of multinational, cross border, cross functional teams. International meetings in various locations have also become important forums for fostering interaction and personal networks that also may be used later to build global teams. In line with a general trend towards an emphasis on work teams, there is a suggestion in the literature

that multinationals would benefit from building on their inherent diversity to foster innovation, organizational learning, and the transfer of knowledge.

Fostering a sense of corporate identity and teamwork seems an important aspect of leverage resources and ideas from all parts of the multinational. The remark from Jack Welch, CEO of GE, reflects this line of thinking. The aim in a global business is to get the best ideas from everywhere. Each team puts up its best ideas and process-constantly. That raises the bar. Our culture is designed around making a hero out of those who translate ideas from one place to another, who help somebody else. They get an award, they get praised and promoted.

To sum up, global operations means having a team of international managers who are available to go anywhere in the world. Different methods for developing an international team are:

- Provide international experience to many levels of managers
- Short-term development assignments ranging from a few months to several years
- International job rotation
- Attendance at common training and development programs held either in the parent country, or regional centers, or both
- International meetings in various locations that foster interaction and personal networks.

### **Expatriate Career Decision Points Individual Career Development**

The above discussion has been from the multinational's perspective. We now briefly look at the impact that an international assignment has on an individual's career. There is an implicit assumption that an international assignment has per se management development potential; perceived career advancement is often a primary motive for accepting such postings. However, there is a paucity of research that demonstrates the link between an international assignment and career advancement. Two exceptions are studied by Feldman and Thomas, and Naumann; while these studies confirm career expectations as motives, the expatriates involved were taken from those currently on assignment. There is a need for research that examines career paths as a direct consequence of international assignments. It is possible to trace the typical assignment and identify critical decision points that may have career-related outcomes for a particular individual. The sequence that may be common to all expatriates—PCNs as well as HCNs who accept assignments to either the parent operations, or to other subsidiaries (thus becoming TCNs). For ease of discussion, though, we will simply use the term expatriate and refer to the sending unit or subsidiary as parent. The stages of expatriation are from recruitment and selection to completion of the particular assignment. The numerals are positioned at what have been identified as critical decision points.

For example, Decision Point 1 occurs during recruitment and selection for a specific assignment, where the expatriate either applies, or is informally selected, for an international assignment. Further information about the host location during the recruitment and selection process (including pre-departure training if that is available), or family considerations, may prompt the potential candidate to withdraw at this point.

**Notes**

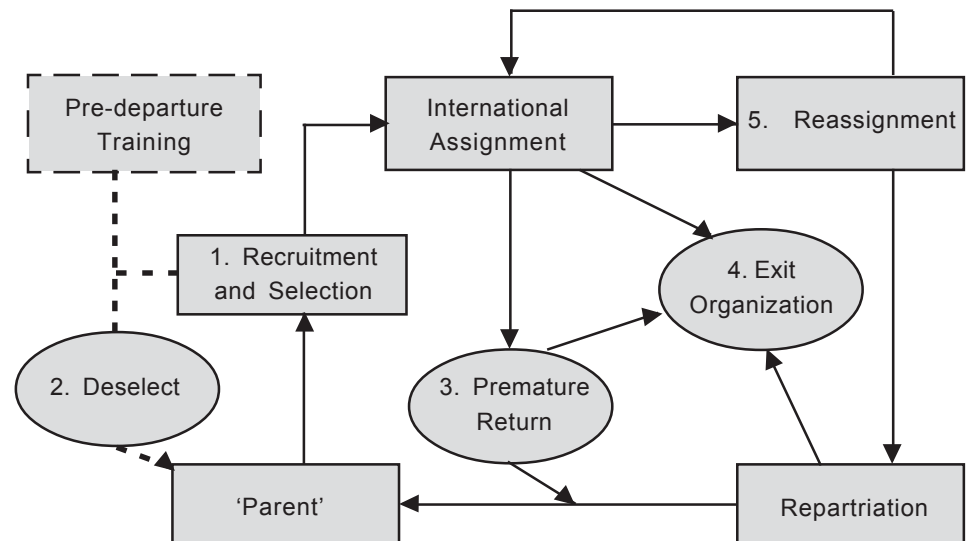
Hence Decision Point 2 is “deselect.” There may be some career considerations as to whether a voluntary withdrawal at the point would have a negative consequence upon the person’s future. Such a perception may influence the individual’s decision to accept rather than reject the assignment. As we discussed earlier in terms of adjustment and performance overseas, the expatriate may decide to leave the international assignment in Decision Point 3 – Premature Return.

The individual then is assigned a position back in the “parent” operation. The premature return may or may not have career advancement consequences.

Alternatively, as indicated by Decision Point 4, the expatriate may decide to exit the organization—prompted by a perceived violation of the psychological contract, or perhaps as a result of another job offer that is perceived to be better in terms of the person’s career. This may be with a domestic firm back in the home country or with another foreign multinational. Decision Point 5, Reassignment, can be either back into the “parent” organization or the person may accept another overseas assignment.

Those, who elect to take a consecutive international assignment may, upon subsequent reassignment return to the “parent” operation, or become part of what is often referred to as the international “cadre”, or team.

Decision Point 4 can be relevant at this stage, as indicated by the dotted arrow (in the figure below) connecting “repatriation” with “exit organization.” How individuals react at each point may vary according to the perceived value of the assignment; that is; whether the perceived benefits outweigh the costs in terms of family disruption (including a spouse or partner’s career) and the factors that we have identified as important to performance while on an international assignment. Of course, the actual benefits will also depend on the multinational’s willingness and ability to utilize the experiences the expatriate has gained during the international assignment.



**Fig. 4.19: International Assignment Impact on Individual’s Career**

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## 4.11 SUMMARY

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## Notes

- Under ethnocentric approach MNCs at their headquarters formulate mission, objectives strategies, product design etc., and also make important decisions for the subsidiaries.
- MNCs, under ethnocentric approach source the human resources for subsidiaries from the parent country nationals.
- MNC, under polycentric approach sources prospective employees including senior managers for the subsidiary from the host country nationals/local nationals, in view of independent/distinctive identity.
- Under regiocentric approach, subsidiary sources the prospective employees within the region in which the subsidiary is located.
- Under polycentric approach, MNC, sources prospective employees including senior managers for the subsidiary from the host country nationals/local nationals, in view of independent/distinctive identity approach towards subsidiary under polycentric approach.
- Under geocentric approach to recruitment, MNCs source for the best prospective employees in terms of suitability for the job from the entire world, regardless of nationality or ethnic group or any other consideration.
- Some MNCs follow centralized recruitment while some others follow decentralized recruitment.
- Micro-level sources of recruitment include: subsidiaries, professional organizations, campus recruitment, and employment agencies.
- Expatriates play a vital role in the selection process.
- Expatriates fail in foreign assignments due to lack of familiar social network of family and friends; language differences that make difficult of developing new friends and network; and feel of tapped at home.
- Selection techniques for overseas employment include: self orientation, orientation towards others, ability to perceive accurately, cultural variations, technical and managerial competence, adaptability, age, experience and education, spouse's educational background, interests and adaptability, achievement motivation and leadership, family status, language, strong desire to transfer knowledge and skills and positive attitude.
- International human resource managers as well as the managements of MNCs face a variety of challenges and difficulties in managing the performance of different types of employees;
- These challenges include: Total Company versus Parts of it, Standard Format versus Customized Format, Uniformity of Data of Performance, Environmental Variations, Validity of Performance Criteria, Time and Distance Variations, Varied Levels of Maturity, Rater's Competence, Rater Bias, Host Environment and Cultural Adjustments.
- Areas to be appraised vary from one type of the employee to other type of the employee like parent country national, host country national and third country national. In addition, it also varies based on the purpose/assignment for which an expatriate is sent to the host country.
- Parent companies predetermine the roles and expectations of these roles from the parent country nationals before departure for the subsidiary.

**Notes**

- Performance of the employee is normally appraised by the immediate superior in case of a domestic company.
- International performance management is not that effective as it should be, owing to the challenges as well as the problems of performance appraisal.
- Cross-cultural adjustment is a critical factor in the global human resource management.
- Cross-cultural adjustment is critical not only for the expatriates and their family members, but also for the host country nationals.
- Areas of global training include: Technical training, Functional training, Strategic management skills training, Soft-skills training, Cross-cultural training, Language training, Pre-departure training, Expatriate training, Training for short-term assignments, On-the-job training assignments, Global mind-set training, team training and management development.
- Most of the MNCs select the expatriates, mostly based on the technical skill background to perform the new job successfully.
- MNCs prefer expatriates for strategic level positions in view of their exceptional skills initially.
- Cross-cultural training is provided to: Parent country nationals, Host country nationals of subsidiaries, Third country nationals, Other kinds of expatriates, Employees of all partners of joint ventures.
- Specific cognitive goals include: understanding the values of assignments, awareness of norms required to interact with nationals effectively.
- The analysis of cross-cultural training needs in terms of organizational analysis, assignment analysis, and employee cultural background analysis.
- Pedagogy specific to cross-cultural training include: Didactic culture general training, Didactic culture specific training, Experimental cultural general training, Experimental cultural specific training.
- MNCs, provide language training like English as a second Language, and English for speakers of other languages, German for speakers for other languages.
- Global mind-set is the ability to scan the world from a broad perspective.
- Expatriate training includes: Language training, Cross-cultural training, Field experience, In-house training programs and training by outside agencies.
- Team is a group of employees with complementary skills.

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**4.12 KEY TERMS**


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|-------------------------------------|-----------------------------|
| • Ethnocentric                      | • Polycentric               |
| • Regiocentric                      | • Geocentric                |
| • Centralized Recruitment           | • Decentralised Recruitment |
| • Expatriate System                 | • Recruitment               |
| • Selection                         | • Selection Techniques      |
| • Recruitment Sources               | • Language                  |
| • Total Company versus Parts of it. | • Structure Producer        |

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Standard Format versus Customized Format</li> <li>• Uniformity of Data of Performance</li> <li>• Environmental Variations</li> <li>• Consultant</li> <li>• Project Manager</li> <li>• Innovator</li> <li>• Time and Distance Variations</li> <li>• Varied Levels of Maturity</li> <li>• Rater's Competence</li> <li>• Rater Bias</li> <li>• Technical Training</li> <li>• Functional Training</li> <li>• Strategic Management Skills Training</li> <li>• Soft-skills Training</li> <li>• Cross-cultural Training</li> <li>• Language Training</li> <li>• Pre-departure Training</li> <li>• Expatriate Training</li> <li>• Training for short-term Assignments</li> <li>• On-the-job Training Assignments</li> <li>• Team Training</li> </ul> | <ul style="list-style-type: none"> <li>• Trouble Shooter</li> <li>• Validity of Performance Criteria</li> <li>• Cultural Adjustments</li> <li>• Skill Transferor</li> <li>• Family Roles</li> <li>• Job Tasks</li> <li>• Recency effect</li> <li>• Reliability</li> <li>• Host Environment</li> <li>• Validity</li> <li>• Parent Country Nationals,</li> <li>• Host Country Nationals of Subsidiaries</li> <li>• Third Country Nationals</li> <li>• Other kinds of Expatriates</li> <li>• Employees of all Partners of Joint Ventures.</li> <li>• Didactic Culture General Training</li> <li>• Didactic Culture Specific Training</li> <li>• Experimental Cultural General Training</li> <li>• Experimental Cultural Specific Training</li> <li>• Global Mindset Training</li> <li>• Management Development</li> </ul> |
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#### 4.13 REVIEW QUESTIONS

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1. What is recruitment? Discuss various sources of recruitment at macro-level that are followed by MNCs?
2. Discuss the advantages and disadvantages of ethnocentric approach.
3. Explain the conditions under which polycentric approach can be used by MNCs in recruitment.
4. What are the advantages of geocentric approach?
5. What is expatriate system in the process of selection of employees by MNCs?
6. Why do expatriates fail to perform as well as continue the employment in MNC?
7. Explain the reasons for the failure of expatriates in foreign employment.
8. Discuss the different selection techniques in foreign employment.



**Notes**

9. Why do the international human resource managers find it challenging in managing performance of employees?
10. Why should international employees need to be appraised in the areas different from those in pure domestic organizations?
11. Explain the role expectations of an employee. How the role expectations from a foreign employee influence international performance management?
12. Who should appraise the performance of employees in MNCs ?
13. Discuss the system performance management in MNCs.
14. What are the problems of performance management in MNC?
15. How do you make the performance management in MNCs effective?
16. Discuss the performance management in MNCs.
17. How is the international training and development different from the domestic training and development?
18. What is global training?
19. Why should MNCs provide training to their employees even after employing relatively more competent people?
20. What are the different areas of global training and development?
21. What is cross-cultural training?
22. Discuss the modes of mobility of human resources across countries consequent upon globalization.
23. Discuss the training for long-term assignments and short-term assignment.
24. What is the concept of global mind-set and global mind-set training.
25. What is language training?

# 5

Unit

## COMPENSATION AND BENEFITS

### Objectives

This unit focuses on:

- Understand various complexities in managing international compensation and benefits;
- Analyze the objectives of international compensation management;
- Study the impact of various internal and external factors on the international compensation management;
- Understand different components or structure of international compensation and benefits structure;
- Analyse the executive compensation of MNCs in different countries;
- Analyze various approaches to international compensation management.

### Structure:

- 5.1 Introduction
- 5.2 Complexities in International Compensation Management
- 5.3 Objectives of International Compensation Management
- 5.4 Factors that Affect International Compensation
- 5.5 Components/Structure of International Compensation Package
- 5.6 Approaches to International Compensation Management
- 5.7 Expatriation and Repatriation Process
- 5.8 Summary
- 5.9 Key Terms
- 5.10 Review Questions

## Notes

## 5.1 INTRODUCTION

Rewards can be intrinsic and extrinsic. Intrinsic reward is a feeling of pride of a job well done and achievement. Extrinsic rewards include praise from a superior, salary, employee benefits, career progression etc. Compensation is extrinsic reward for an employee. International compensation is a key issue in international human resource management.

Compensation is the amount of remuneration paid to an employee by the employer in return to the employee's services to the company. Almost all the employees accept jobs in MNCs, take-up assignments in various countries, and take-up the risk, bear inconveniences and discomforts in foreign assignments mostly based on the compensation package. However, some employees may accept the foreign assignments based on the expected compensation package for the future jobs. Thus, compensation package plays a pivotal role in international human resource management as the employees leave their comfortable current jobs, home, relatives, friends and society at the home country to earn more finance and for better future prospects. Some employees even sacrifice the family life in order to make good money in the shortest span of time. As such, international human resource managers prioritize the compensation management function over other functions, though it is more critical over other HR functions.

## 5.2 COMPLEXITIES IN INTERNATIONAL COMPENSATION MANAGEMENT

Compensation management function is more critical and complex over other functions of HRM as indicated in Fig. 5.1. The factors responsible for the complexity are discussed hereunder:

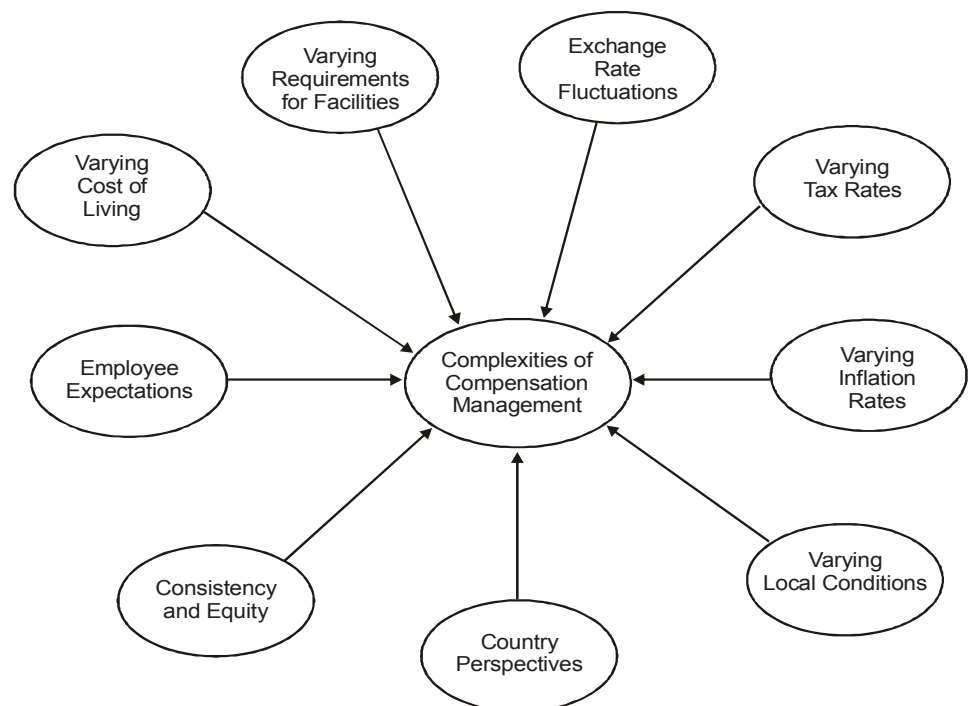


Fig. 5.1: Complexities of Compensation Management

- The salary and benefits levels vary from country to country.
- Cost of living varies widely among countries, for example cost of living in Tokyo (Japan) is three times higher than that in New Delhi (India).
- Varying requirements of providing housing, and medical and health facilities for employee family members and school facilities for employee children in different countries. For example, most of the companies in Papua New Guinea provide free housing, and free medical and housing facilities for employee's family and school fee for employee's children as part of the compensation package for expatriates, while the MNCs in USA do not provide these facilities as part of the compensation package.
- Varying salary levels of expatriates in their respective home countries. These salary levels are viewed as opportunity costs by the expatriates while accepting compensation package for their foreign assignments. For example, an MNC in Singapore attracts employees from India and Philippines at low salary level, whereas it attracts employees from USA and Japan at a very high salary level. This is owing to the reason that salary levels in India and Philippines are normally low when converted into Singapore dollars and the salary levels in USA and Japan would be very high when converted into Singapore dollars.
- Foreign exchange rates fluctuate widely.
- Varying tax rates. For example, the effective personal income tax rate is as low as zero in most of the Arab countries and it is as high as 54% in Sweden.
- Varying rates of inflation and deflation among the developed and developing countries.
- Varying local conditions in host countries in terms of cost of living, availability of housing and medical facilities, school facilities and security situations that require the MNCs to design different pay packages for different countries;
- **Country Perspectives:** MNCs consider local perspectives in terms of tax rates, statutory requirements like percentage of repatriation amount. For example, the statutory requirement of Government of Eritrea is to allow the expatriates to repatriate 60% of their salary.
- **Consistency and Equity:** MNCs face dichotomy with regard to maintenance of consistency of pay for those employees who move from one country to another country within the service of the same MNC. Further, maintaining a balance between expatriates' pay and nationals' pay. Some of the MNCs discriminate the expatriates from nationals in pay determination by fixing higher pay for expatriates and lower pay for nationals. (See Box 12.1).
- **Expectations of Different Categories of Employees:** MNCs employ people from different countries like parent country nationals, host country nationals, third country nationals covering the nationals of varied countries. In addition, employees of MNCs vary in terms of duration of employment and purpose of employment. Expectations of these different categories expect different levels of pay package. Sometimes, most efficient employee from a developing country may expect less salary than that of a less efficient employee from an advanced country.

**Notes**

These factors implicate the compensation management functions including setting the compensation management objectives. Though, it would be rather easy to design

## Notes

## BOX 5.1: INTERNATIONAL COMPENSATION: THE CHALLENGE

As companies expand globally, the need for locally competitive remuneration data has never been more critical. For human resource professionals, international expansion means becoming expert in government mandated programs, customary employer sponsored private benefits, and competitive compensation and benefits practices. Understandably practitioners often require assistance in getting up to speed in a new location, or simply keeping pace in an established one.

Our client, a leading e-services company providing Internet strategy consulting, and sophisticated Internet-based solutions, has operations in the UK, Australia, and recently entered the Indian market. Their exponential growth rates demanded readiness to enter international markets efficiently and effectively with the backing of solid international human resource expertise. The specific challenge was twofold:

- A complete reassessment of their United Kingdom benefits and compensation program, and
- The design and implementation of a complete benefits and compensation

program for start up operations in Sydney, Australia.

**The Process**

ERL Consulting, using its proven 3D process, formed a team of international benefits and compensation experts which partnered with the client to define gaps between the client's current and future international compensation and benefits programs. ERL Consulting designed a competitive benchmarking strategy, which it deployed to achieve our client's goals and objectives.

Using its international salary and benefits surveys for over 80 countries, the International Compensation Practice benchmarked our client's positions to their UK and Australian technology competitors for compensation and reported on non-statutory benefits and perquisites for each position under review.

On the benefits side, ERL drew on the experience of its local offices in Australia and the United Kingdom. In the United Kingdom, ERL Consulting undertook an expansive review of the competitiveness of the Life, PHI (Disability) and Group Personal Pensions.

*Source:* [http://www.erlimited.com/resources/Benefits\\_case\\_study.php9](http://www.erlimited.com/resources/Benefits_case_study.php9) (22/11/2007).

the objectives for compensation and benefits management, it would be very difficult to implement them.

### 5.3 OBJECTIVES OF INTERNATIONAL COMPENSATION MANAGEMENT

The objectives of compensation package of MNCs are presented in Fig. 5.2. MNCs manage the compensation and benefits with the following objectives:

- **Recruitment and Retention of suitable Employees:** MNCs design and practice compensation and benefits in order to attract, and retain most suitable employees in terms of job efficiency and cultural adaptability.
- **Consistency and Equity:** MNCs design the salary and benefits package to secure consistency between pay and performance and equity among employees of different nationalities and categories, and employees of subsidiaries and parent company.

**Facilitate Mobility:** MNCs design pay package in order to enable the employees to move from parent company to foreign subsidiaries and from one foreign subsidiary to another foreign subsidiary.

**Adaptability to Foreign Cultures and Environment:** MNCs design pay package that motivates employees and his/her family members to willingly adapt to the cultures and environment of the foreign countries. For example, providing

comfortable housing, highly reliable medical facilities, security facilities against odds and international standard schooling facilities encourage employee’s family members to adapt to the foreign country cultures and environment and allow the employee to concentrate on the job.

**Cost of Staff vis-à-vis Ability to Pay:** MNC’s pay package should ultimately be based on the company’s ability to pay. Ability to pay determines the package, which in turn determines the level of quality of employees as well as total cost of staff.

**Simplify Collective Bargaining Procedures:** Though some of the MNCs are free from trade unions, still collective bargaining plays dominant role in formulating HRM policies and procedures including compensation. The sound compensation package reduces employee grievances over compensation and thereby the items on the agenda of collective bargaining. In fact, nearly 40% of collective bargaining items are related to compensation issues in most of the MNCs. Therefore, MNCs design the pay package that reduces the anomalies and need for collective bargaining.

**Organizational Performance:** MNCs pay package should work as motivator to enhance employee job performance, learning latest skills and contribute to the enhancement of organizational performance. In fact, performance based pay package enhances organizational performance.

**Competitive and Comparable Compensation Package:** MNCs design their compensation package based on that of their close competitors for people in the global as well as in each country they operate in order to attract and retain competent employees. In addition, they also set the pay package to be competitive among various jobs within their organization in order to attract the best talent for the critical and jobs that are in high demand. It is needless to mention that the MNC’s pay package would invariably be competitive to that of domestic pay package of an expatriate in order to pull him/her from the domestic job and organization.

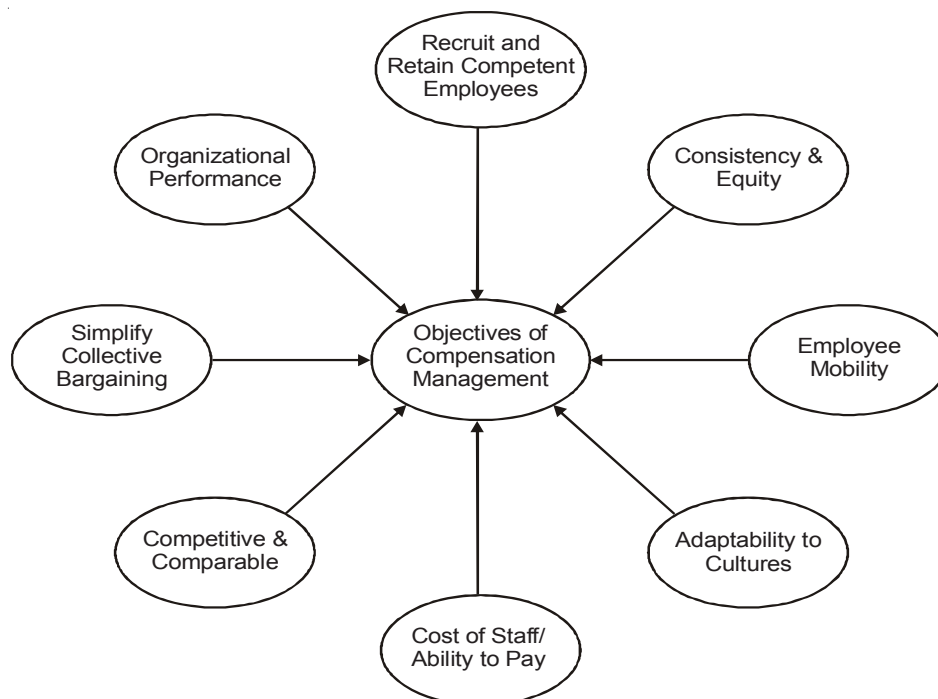


Fig. 5.2: Objectives of MNC’s Compensation Management

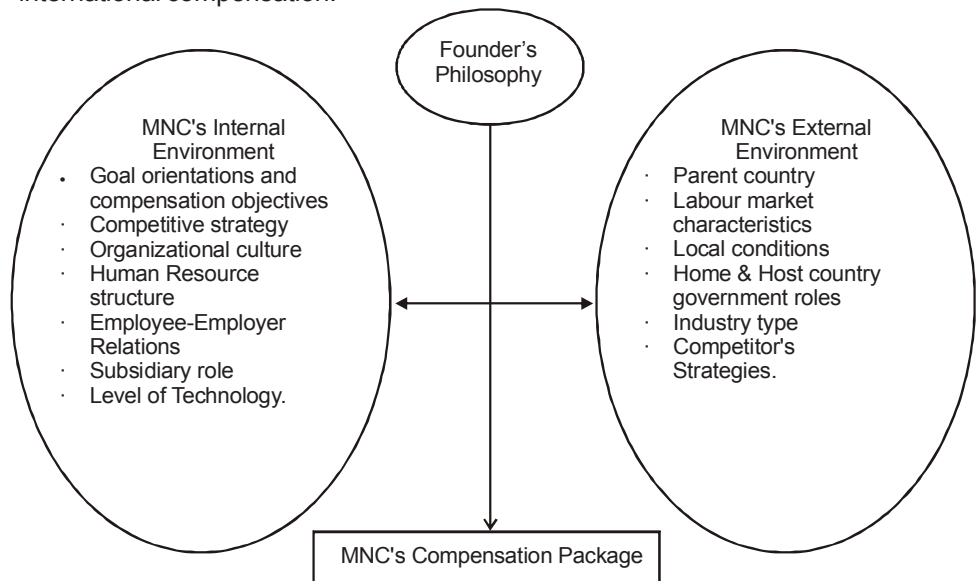
**Notes**

Achieving these objectives of international compensation is critical as a number of factors/variables affect designing and implementing international compensation package.

Now, we shall study these factors.

**5.4 FACTORS THAT AFFECT INTERNATIONAL COMPENSATION**

The contingency theory of international compensation suggests that there are a number of variables that affect international compensation. This theory suggests balance sheet approach and identifies factors like host country preferences in designing international compensation package. Resource-based theory recognizes the factors of competitive advantage through human resources which are valuable, rare and difficult to process/imitate and replace. Such employers contribute to the MNC’s sustainable competitive advantage. Competitive advantage of MNCs, resides in competent knowledgeable and skilled human resources. According to Resource-based theory, MNCs design pay package in order to maintain and retain such competent employees for sustainable competitive advantages. Fig. 5.3 presents various factors affecting international compensation.



**Fig. 5.3: Factors affecting international compensation**

Source: Adapted Marilyn Fenwick, "International Compensation and Performance Management", in Anne-Wil Harzing and Joris Van Ruysseveldt (eds.), Sage Publics, London, 2006, p.311.

**(i) MNC's Internal Environmental Factors**

MNC's internal environmental factors are related to the company's strategic management and functional areas of management. Now we discuss the influence of these factors on compensation level and package.

**Objectives and Goals of MNCs and their Compensation Management:**

Goals of MNCs include profit earning, expansion of markets, increasing market share and the like. Similarly, global non-profit organizations also formulate their goals. For example, the goal of world vision Australia is "Sighting poverty by empowering people



**Notes**

to transform their worlds'. Goal of an MNC dealing in oil, is "to enter 21<sup>st</sup> century as a billion dollar a year international oil and gas company." MNCs formulate the objectives of compensation and benefits based on corporate goals. MNCs with competitive strategic goals formulate the compensation objectives of attracting and retaining the most competent people. In fact, they strive to pay competitive salaries and benefits in the industry globally. For example, Coca-Cola always pays competitive salaries and benefits in the country of operation.

**Capacity to Pay:** MNC's capacity to pay is based on its long-run profitability. In fact, MNCs can't pay more than their ability to pay in the long-run as it is the ultimate factor that determines the pay package. However, MNCs, in the short run may pay more than their ability in order to attain short-run survival.

**Competitive Strategy:** MNCs adapting aggressive and offensive business strategies would like to be competitive and craft competitive compensation strategies. For example, Coca-Cola adapts competitive strategies over Pepsi-Cola and Xerox over Canon. Such companies also adapt competitive strategy in designing pay package over that of their competitors, in order to attract more competent people than that of their competitors. In fact competent employees can contribute to the achievement of competitive strategies.

**Organizational Culture:** Organization culture is embodied by the quality of work life. Quality of work life in its turn is influenced by the benefits and facilities provided by the MNCs. Therefore, MNCs in order to provide high quality of work life provide various benefits like car allowance, health insurance and stock options. For example, Delloittee provides health facilities and stock options as a part of compensation package.

**Human Resource Structure:** Human resource structure includes age, gender, educational qualifications, skill level and attitudes of employees influence the compensation package. MNCs with more middle-age employees having school-going children pay school allowances, MNCs with more women employees involve cost in providing security to women employees and child care centres and MNCs with vibrant attitude people hike salaries every year. Thus, HR structure affect the compensation structure and package.

**Employee-Employer Relations:** Employee-employer relations are determined by their attitude towards each other and the existence of trade unions. Existence of trade unions influence human resource policies and practices particularly compensation management. In fact, some trade unions organize strikes in order to influence MNCs for paying higher salaries some times, even more than their capacity to pay. Such situations influence the compensation package wildly and significantly.

**Role of Subsidiaries:** Subsidiaries play vital role in designing the compensation package in view of their specific requirements in terms of job skills, organizational requirements, cultures, stakeholder demands and the systems. The subsidiary systems in terms of pay equity or pay differentials between expatriates and national employees, provision for special benefits for expatriates and the like influence the compensation package significantly.

**Level of Technology:** Level of technology determines the level of skill and knowledge requirements, demand for and supply of specific skills and expertise and

**Notes**

the level of difficulty of adjusting to the new technology influence the structure and level of compensation and benefits.

Now, we shall discuss the influence of external environmental factors on compensation package as well as compensation levels.

**(ii) Influence of External Environmental Factors**

External environmental factors along with internal environmental factors influence the compensation package of MNCs. These factors include: parent nationality, labour market characteristics, local conditions, home country and host country government roles, industry types and competitor's strategies.

**Parent Country**

Country of the MNC's headquarters, its culture, cost of living, values and attitudes towards compensation influence the initial compensation structure. The compensation package levels and pattern and types of benefits in the parent country influence in designing the pay package. For example, Dr. Reddy Labs, an Indian MNC, designs its compensation package for other countries based on Indian values and culture to a great extent. However, it takes the local conditions also into account in finally designing the package. Similarly, Coca-Cola, a USA's MNC structures the salary of its subsidiaries based on its USA's salary structure.

**Labour Market Characteristics**

Labour market characteristics that influence compensation include demand for and supply of different categories of employees and their skills and knowledge. Excess of supply over demand of a particular category of employees results in fixing up of lower salary levels over other categories of employees whose demand is in excess of supply. In fact, host country nationals employed for those jobs for which their supply is in excess of demand for the same would normally get lower salary levels compared to that of expatriates for other categories whose demand is in excess of the supply. For example, host country nationals' salaries are low in Malaysia for civil engineers, mechanical engineers and school teachers as their supply is in excess of demand. But expatriate software engineers get more salaries than that of civil engineers in Malaysia, as the formers supply is less than of demand. In contrast, expatriates from India, Bangladesh, Pakistan and Philippines placed in lower level jobs would accept salaries lower than that of nationals in Saudi Arabia, United Arab Emirates and Oman.

Supply of employees for managerial jobs, engineering jobs, medical doctors and software engineers is less than that of demand for the same in most of the countries. Therefore, expatriates are employed on higher level salaries than that of nationals for such categories. Thus, labour market characteristics like demand for and supply play pivotal role in designing compensation package. Other labour market characteristics that influence compensation package are availability of training and educational institutions, location of organizations competing for the same kind of skills, cultural factors that influence equity or differentials in compensation package, beliefs, attitudes and tolerance levels towards compensation inequities between expatriates and nationals.

**Local conditions****Notes**

Local conditions of the country where MNC or subsidiary is located include the security conditions, availability of housing, medical, educational, telecommunication, hospitality facilities, transportation and recreational facilities and their cost. These conditions determine the cost of living in that country along with general price trends. Level of cost of living influence the compensation package.

**Host and Home Country Government Roles**

Governments through their labour polices, enactment of compensation laws and guidelines issued to various companies influence the compensation levels as well as benefits package. Maternity Benefits Act of the host country determines providing maternity leave with salary and medical facilities. Some MNCs provide compensation and benefits based on the provisions and benefits that are in force in parent country for the parent country nationals. Some MNCs follow the provisions of those either host country government guidelines and laws or home country government guidelines and laws that are advantageous to the employee while some MNCs follow that are beneficial to the organizations.

**Industry Type**

Compensation package and structure mostly depend on the type of industry. For example, the salary levels of employees working in software industry, pharmaceutical industry, health services industry, biotechnology industry, and mobile communication industry are higher than that of other industries like steel industry, automobile industry, chemical industry and cement industry during 1990s and 2008. O'Donnel concluded that international compensation strategies vary according to industry type.

In addition, the study conducted by O' Donnel indicates that, MNCs competing in a global industry can allocate rewards based on corporate and regional performance rather than on subsidiary performance, as favoured by MNCs competing in a multi-domestic industry. For example, service sector and high technology MNCs have been more likely than manufactures to incorporate employee stock options in their international compensation strategies.

**Competitor's Strategies**

Competitors' strategies in business, human resource management as well as in compensation package influence the compensation package of foreign companies. MNCs, who design the business strategies of market leadership, also prefer to be leader in payment of compensation package. Companies which prefer to be a follower of the market leader, formulate the compensation package based on that of the market leader.

In general, MNCs follow the compensation packages of comparable MNCs in terms of industry, region, closeness in competition and size.

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**5.5 COMPONENTS/STRUCTURE OF INTERNATIONAL COMPENSATION PACKAGE**

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Expatriates and other categories of employees of MNCs experience a variety of problems and hardships and sacrifice a number of facilities, privileges and relationships

**Notes**

at their home country. In addition, they bear a range of risks and undergo inconveniences in the host country. Therefore, MNCs design the compensation structure for their employees in such a way that it meets the financial needs of employees for various facilities, compensates the current and future inconveniences and insures a variety of risks. The components of international compensation include the following. All the MNCs do not include all the components listed here under. The following list is an illustrative one, rather than an exhaustive or inclusive one.

- Pay or Base salary
- Cost of Living Allowance
- Tax equalization Allowance
- International Market Allowance
- Housing Allowance
- Educational Allowance
- Relocation Allowance
- Settling-in and settling out Allowance
- Medical Allowance
- Hardship and Danger Allowance
- Exchange rate Protection Allowance
- Insurance Allowance
- Stock-Option
- Bonus
- Gratuity
- Pension
- Benefits
- Social Security Measures.

Now, we study the various components of the compensation package. Various components of the compensation package can be categorized as presented in Table 5.1.

**Pay (or) Base Salary**

The meaning of the term pay or base salary varies from country to country as well as from one MNC to the other with regard to international compensation. Some organizations provide some base salary to all categories of employees like PCNs, TCNs and HNCs. These organizations pay international market allowance for foreign employees and domestic market allowance for HCNs over and above the base salary. Some other MNCs provide base salary equivalent to the salary earned by the PNCs and TCNs in their respective home countries and pay additional allowances to meet the cost of hardships, inconveniences and risks. Some other category of MNCs provide base salary based on cost of living index at a base year and provide variable cost of living allowance based on the changing cost of living index from time to time. Thus, though the base salary varies from organization to organization, basically it represents the compensation for employee skill, knowledge and other requirements to the job in MNCs.

TABLE 5.1: STRUCTURE OF INTERNATIONAL COMPENSATION PACKAGE

Notes

<b>Base Salary and Incentive Pay</b>	<b>Allowances</b>	<b>Benefits (in Cash or Kind)</b>	<b>Retirement Benefits</b>
<ul style="list-style-type: none"> <li>• Pay/ Base Salary</li> <li>• Bonus</li> <li>• Stock-Option</li> </ul>	<ul style="list-style-type: none"> <li>• Cost of Living Allowance</li> <li>• Tax equalization Allowance</li> <li>• International Market Allowance</li> <li>• Relocation Allowance</li> <li>• Settling-in and settling out Allowance</li> <li>• Hardship and Danger Allowance</li> <li>• Exchange rate Protection Allowance</li> </ul>	<ul style="list-style-type: none"> <li>• Housing Allowance/ Facilities</li> <li>• Educational Allowance/ Facilities</li> <li>• Medical Allowance/ Benefits</li> <li>• Insurance Allowance</li> </ul>	<ul style="list-style-type: none"> <li>• Gratuity</li> <li>• Pension</li> <li>• Social Security Measures</li> </ul>

**Cost of Living Allowance (COLA)**

Cost of living varies from one city to other city of the same country and from one country to the other country. In addition, it varies from one period of time and the other period of time in the same city and country and year. For example, Mercer Human Resource Consulting’s survey conducted in March 2006 (see Table 12.2) indicates that Tokyo (in Japan) was the most costly city in the world in 2005 followed by Osaka (in Japan). It further indicates that Moscow (Russia) was the most costly city (with cost of living index of 123.9) followed by Seoul (with cost of living index of 121.7) in 2006. Among the USA cities New York city occupies 10<sup>th</sup> position followed by Los Angeles (29<sup>th</sup> position) in 2006 in the world. Among the Indian cities Mumbai occupies 68<sup>th</sup> position (with cost of living index of 70.8 in 2005 and 79.9 in 2006) followed by New Delhi (73<sup>rd</sup> position) and Chennai (137<sup>th</sup> position) in 2006. Varying cost of living influences the real salary and creates a feel of inequity among the MNC employees working in different countries.(See Table 5.2).

MNCs determine cost of living allowance based on the cost of living index. Payment of cost of living allowance (COLA) is necessary in order to protect the purchasing power of employee at a comparable level with that of employee’s home city and/or earlier cities of employment. In addition, COLA is necessary as the cost of living varies from one year to other year in the same city. For example, the cost of living index of Mumbai (India) increased from cost of living index of 70.8 in 2005 to 79.9 in 2006.

Some MNCs include housing allowance, education allowance and tax equalization allowance in COLA, while others pay them separately. The COLA would be adjusted accordingly when it is inclusive of other allowances as well as exclusive of other allowances.

The 2007 survey conducted by the Economists Intelligences Unit of Fine Facts indicates that the cost of living in Paris, Copenhagen and London in 2007 is more

## Notes

TABLE 5.2: COST OF LIVING IN MAJOR CITIES IN THE WORLD-RANKINGS OF 2005 AND 2006

Rankings		COL Index			
March 2006	March 2005	City	Country	March 2006	March 2005
1	4	MOSCOW	Russia	123.9	119
2	5	SEOUL	South Korea	121.7	115.4
3	1	TOKYO	Japan	119.1	134.7
4	9	HONG KONG	Hong Kong	116.3	109.5
5	3	LONDON	United Kingdom	110.6	120.3
6	2	OSAKA	Japan	108.3	121.8
7	6	GENEVA	Switzerland	103	113.5
8	8	COPENHAGEN	Denmark	101.1	110
9	7	ZURICH	Switzerland	100.8	112.1
10	10	OSLO	Norway	100	105.3
10	13	NEW YORK CITY	United States	100	100
12	15	ST.PETERSBURG	Russia	99.7	99.5
13	11	MILAN	Italy	96.9	104.9
14	19	BEIJING	China	94.9	95.6
15	22	ISTANBUL	Turkey	93.1	93.8
15	12	PARIS	France	93.1	102.2
17	34	SINGAPORE	Singapore	92	88
18	13	DUBLIN	Ireland	91.8	100
19	20	SYDNEY	Australia	91.3	95.2
20	30	SHANGHAI	China	91.2	90.4
21	17	ROME	Italy	89.8	97.3
21	54	KIEV	Ukraine	89.8	84.5
21	16	VIENNA	Austria	89.8	97.8
24	39	TELAVIV	Israel	89.7	87.6
25	20	HELSINKI	Finland	87.8	95.2
25	73	DUBAI	United Arab Emirates	87.8	77.8
27	22	DOUALA	Cameroon	87.6	93.8
28	29	TAIPEI	Taiwan	86.8	90.6
29	44	LOS ANGELES	United States	86.7	86.7
30	64	ABU DHABI	United Arab Emirates	86	81
31	96	LAGOS	Nigeria	85.5	72.8
32	52	BEIRUT	Lebanon	85.4	84.6
32	50	HANOI	Vietnam	85.4	84.9
34	119	SAO PAULO	Brazil	85	66.6
34	50	SAN FRANCISCO	United States	85	84.9

						<b>Notes</b>
<b>36</b>	18	STOCKHOLM	Sweden	<b>84.8</b>	96.8	
<b>37</b>	56	HO CHI MINH CITY	Vietnam	<b>84.2</b>	83.8	
<b>38</b>	52	CHICAGO	United States	<b>84.1</b>	84.6	
<b>39</b>	57	MIAMI	United States	<b>83.9</b>	83.3	
<b>40</b>	124	RIO DE JANEIRO	Brazil	<b>83.5</b>	65.4	
<b>41</b>	123	LUSAKA	Zambia	<b>83.4</b>	65.6	
<b>41</b>	24	AMSTERDAM	Netherlands	<b>83.4</b>	93.3	
<b>43</b>	45	WHITE PLAINS	United States	<b>83.2</b>	86.6	
<b>44</b>	63	SHENZHEN	China	<b>82.9</b>	81.3	
<b>45</b>	26	ABIDJAN	Cote d'Ivoire	<b>82.8</b>	93	
<b>45</b>	36	DAKAR	Senegal	<b>82.8</b>	87.9	
<b>47</b>	82	TORONTO	Canada	<b>82.6</b>	76.2	
<b>48</b>	71	JAKARTA	Indonesia	<b>82.4</b>	78.9	
<b>48</b>	31	BRATISLAVA	Slovak Republic	<b>82.4</b>	89.9	
<b>50</b>	28	PRAGUE	Czech Republic	<b>82.1</b>	90.8	
<b>51</b>	58	ALGIERS	Algeria	<b>82</b>	81.9	
<b>52</b>	75	ALMATY	Kazakhstan	<b>81.9</b>	77.6	
<b>53</b>	46	MADRID	Spain	<b>81.6</b>	86	
<b>54</b>	65	GUANGZHOU	China	<b>81.5</b>	80.6	
<b>55</b>	74	SAN JUAN	Puerto Rico	<b>81.4</b>	77.7	
<b>56</b>	87	VANCOUVER	Canada	<b>81.2</b>	74.3	
<b>56</b>	43	BARCELONA	Spain	<b>81.2</b>	86.9	
<b>56</b>	33	LUXEMBOURG	Luxembourg	<b>81.2</b>	88.2	
<b>59</b>	41	ATHENS	Greece	<b>81.1</b>	87.2	
<b>60</b>	40	GLASGOW	United Kingdom	<b>80.7</b>	87.5	
<b>61</b>	34	FRANKFURT	Germany	<b>80.5</b>	88	
<b>62</b>	67	AMMAN	Jordan	<b>80.4</b>	80.1	
<b>62</b>	32	DUSSELDORF	Germany	<b>80.4</b>	88.4	
<b>62</b>	27	WARSAW	Poland	<b>80.4</b>	91.5	
<b>65</b>	37	MUNICH	Germany	<b>80.2</b>	87.8	
<b>65</b>	24	BUDAPEST	Hungary	<b>80.2</b>	93.3	
<b>67</b>	61	HONOLULU	United States	<b>80</b>	81.4	
<b>68</b>	105	MUMBAI	India	<b>79.9</b>	70.8	
<b>69</b>	47	BIRMINGHAM	United Kingdom	<b>79.7</b>	85.8	
<b>70</b>	41	BRUSSELS	Belgium	<b>79.5</b>	87.2	
<b>71</b>	98	CALGARY	Canada	<b>79.3</b>	72.5	
<b>72</b>	38	BERLIN	Germany	<b>79.2</b>	87.7	
<b>73</b>	110	NEW DELHI	India	<b>79</b>	69.9	
<b>74</b>	68	MELBOURNE	Australia	<b>78.8</b>	80	
<b>75</b>	91	ACCRA	Ghana	<b>78.6</b>	73.6	
<b>76</b>	70	HOUSTON	United States	<b>78.5</b>	79.1	
<b>77</b>	49	HAMBURG	Germany	<b>78.2</b>	85	



<b>Notes</b>	<b>78</b>	72	KUWAIT CITY	Kuwait	<b>78</b>	78.3
	<b>79</b>	48	ZAGREB	Croatia	<b>77.7</b>	85.2
	<b>80</b>	107	MONTREAL	Canada	<b>77.6</b>	70.7
	<b>81</b>	54	RIGA	Latvia	<b>77.2</b>	84.5
	<b>81</b>	95	MEXICO CITY	Mexico	<b>77.2</b>	73.1
	<b>83</b>	78	WASHINGTON	United States	<b>77</b>	77.4
	<b>84</b>	80	MORRISTOWN	United States	<b>76.8</b>	76.9
	<b>84</b>	79	BOSTON	United States	<b>76.8</b>	77
	<b>86</b>	83	ATLANTA	United States	<b>76.3</b>	76.1
	<b>87</b>	86	MANAMA	Bahrain	<b>76.1</b>	74.5
	<b>88</b>	59	CASABLANCA	Morocco	<b>75.9</b>	81.6
	<b>88</b>	66	LISBON	Portugal	<b>75.9</b>	80.2
	<b>90</b>	122	OTTAWA	Canada	<b>75.6</b>	66.4
	<b>91</b>	128	SANTIAGO	Chile	<b>74.5</b>	64.8
	<b>91</b>	61	LYON	France	<b>74.5</b>	81.4
	<b>93</b>	108	GUATEMALA CITY	Guatemala	<b>74.3</b>	70.4
	<b>93</b>	97	CAIRO	Egypt	<b>74.3</b>	72.5
	<b>93</b>	93	PERTH	Australia	<b>74.3</b>	73.5
	<b>96</b>	60	TALLINN	Estonia	<b>73.7</b>	81.5
	<b>97</b>	94	DENVER	United States	<b>73.6</b>	73.2
	<b>98</b>	88	RIYADH	Saudi Arabia	<b>73.5</b>	74.1
	<b>99</b>	84	BRISBANE	Australia	<b>73.2</b>	74.9
	<b>100</b>	89	JEDDAH	Saudi Arabia	<b>72.9</b>	73.9
	<b>101</b>	69	AUCKLAND	New Zealand	<b>72.9</b>	79.6
	<b>102</b>	103	SEATTLE	United States	<b>71.9</b>	71.4
	<b>103</b>	115	MONTERREY	Mexico	<b>71.6</b>	67.7
	<b>103</b>	102	ST. LOUIS	United States	<b>71.6</b>	71.6
	<b>105</b>	76	WELLINGTON	New Zealand	<b>71.1</b>	77.5
	<b>106</b>	76	LJUBLJANA	Slovenia	<b>71</b>	77.5
	<b>107</b>	119	NAIROBI	Kenya	<b>70.9</b>	66.6
	<b>108</b>	89	ADELAIDE	Australia	<b>70.6</b>	73.9
	<b>109</b>	105	KINGSTON	Jamaica	<b>70</b>	70.8
	<b>110</b>	109	CLEVELAND	United States	<b>69.8</b>	70.3
	<b>111</b>	112	PORTLAND	United States	<b>69.7</b>	68.8
	<b>111</b>	81	SOFIA	Bulgaria	<b>69.7</b>	76.3
	<b>113</b>	111	PITTSBURGH	United States	<b>69.4</b>	69.2
	<b>114</b>	117	KUALA LUMPUR	Malaysia	<b>69.3</b>	67.1
	<b>114</b>	103	BUCHAREST	Romania	<b>69.3</b>	71.4
	<b>116</b>	91	VILNIUS	Lithuania	<b>69.2</b>	73.6
	<b>117</b>	116	JOHANNESBURG	South Africa	<b>69.1</b>	67.4
	<b>118</b>	100	LIMASSOL	Cyprus	<b>68.7</b>	71.9

118	118	LIMA	Peru	68.7	66.9
118	113	BANDAR SERI BEGAWAN	Brunei	68.7	68.5
121	114	PANAMACITY	Panama	68.5	68.3
122	101	DETROIT	United States	68.3	71.8
123	85	LEIPZIG	Germany	68.1	74.8
124	119	WINSTON SALEM	United States	66.7	66.6
125	129	TEHRAN	Iran	66.4	64.4

Notes

Source: [www.mercerHR.com/costofliving](http://www.mercerHR.com/costofliving).

**Note:** Ranks 101 to 144 are provided in Appendix at the end of the chapter.

than that of Tokyo and Osaka of Japan. The reason for this is the strength of European currencies and rising prices in European cities. Out of the top 10 costliest cities only Tokyo and Osaka hail from outside Europe. Moscow (Russian 26<sup>th</sup> in rank). Asian hubs and Australasian cities remain costly while Indian cities and Filipino cities remain to be the cheapest cities in the world. It does mean that the money buys best value in these cheapest cities. Similar to Indian and Filipino cities, Latin America also presents the best value for money. For example, Guatemala (63<sup>rd</sup> rank) and Mexico city (68<sup>th</sup> rank) are the cheapest cities in Latin America.

Only two cities from Africa and the Middle East feature in the 50 most expensive cities. Abidjan (Cote d' Ivory) (44<sup>th</sup> rank) and Tel Aviv (47<sup>th</sup> rank) among the costliest cities in 2007. Tehran (Iran) presents the best value for money.

As indicated earlier, various international human resource/business consulting firms present cost of living data. Cost of living is computed by taking house rent cost, educational cost, medical cost, recreational cost, various services and other living expenditure in different cities in the world with the cost of living in a city in a particular year as the base cost.

MNCs pay COLA in order to protect the standard of living as well as purchasing power of the employee in his/her home town and the previous place of work. Commonly, MNCs pay 50% of base salary as COLA. In fact, Indian expatriates in Paris need 80% more than what they spend in India to have the same standard of living except for housing and children education. Thus, MNCs pay COLA to protect the living standards of employees.

**Tax Equalization Allowance**

Personal income tax makes wide variation in the salary of employees among different countries. The jobs in United Arab Emirates, Oman and Brunei Darussalam are more attractive than that of Sweden as the tax rate is 00.00% in the former group of countries and 54.02% in Sweden. The tax rates are high in Sweden (54.02%), Netherlands (46.20%), Japan (45.00%), Australia (44.19%), Papua New Guinea (43.00%) and South Africa (42.71%). It is 35% in India, 28.56% in Singapore and 15% in Hong Kong.

Table 5.3 presents the range of individual tax rates of various countries. The minimum tax rate is as high as 25% and the maximum rate is 50% in Belgium. Denmark presents most discouraging tax rates in the world, minimum being 38% and maximum being 59%. Sweden and Netherlands follow Denmark with 56% and 52% maximum range of tax rates respectively. The tax rate in United Arab Emirates

**Notes**

is 0.00%. Tax rate in India seems to be encouraging place to work for international employees as the minimum tax rate is 10% and the maximum tax rate is 30%.

MNCs consider the varying tax rates in different places, while designing the compensation package for expatriates in order to maintain the same living standard as well as same ability to save compared to those of employee's home town and/or previous place of employment. For example, an MNC transferring an employee earning a total salary of US\$100,000 per annum from its operation in United Arab Emirates (tax rate is 0.00%) to its operation in Denmark (maximum tax rate is 59%), provides the tax equalization allowance of around US\$150,000 per annum, so that the employee would get the after tax salary of around US\$100,000 in Denmark.

**TABLE 5.3: INDIVIDUAL INCOME TAX RATES AROUND THE WORLD**

Country	Individual Income tax rates	Country	Individual Income tax rates
Algeria	0-40%	Luxembourg	6-38.95%
Argentina	9-35%	Malaysia	0-28%
Australia	0-45%	Malta	0-35%
Austria	21-50%	Mexico	3-29%
Azerbaijan	0-35%	Monaco	0%
Bangladesh	0-25%	Montenegro	15%
Belarus	12-30%	Morocco	0-41.5%
Belgium	25-50%	Nepal	10% to 25%
Brazil	15-27.5%	Netherlands	0-52%
Bulgaria	10%	New Zealand	0-39%
Cameroon	10-35%	Norway	28-51.3%
Canada	15-29% (federal)	Pakistan	7.5-35%
Chile	0-40%	Panama	0-27%
China	5-45%	Peru	15-27%
Colombia	0.29-38.5%	Philippines	5-32%
Croatia	15-45%	Poland	19-40%
Cuba	10-50%	Portugal	10.5-40%
Cyprus	20-30%	Romania	16%
Czech Republic	15%	Russia	13%
Denmark	38-59%	Saudi Arabia	0%
Egypt	20-40%	Senegal	up to 50%
Estonia	22%	Serbia	10/14%
Finland	9-32%	Singapore	3.75%-21%
France	10-48.09%	Slovakia	19%
Germany	15-45%	Slovenia	16-50%
Georgia	12%	South Africa	18-40%
Gibraltar	17-40%	Spain	15-45%
Greece	0-40%	Sweden	0-56%
Guatemala	15-31%	Switzerland	0-13.2% (federal)
Hong Kong	16-20%	Syria	5-15%
Hungary	18% and 36%	Taiwan	6-40%
Iceland	0-45.58%	Thailand	5-37%
India	10-30%	Tunisia	0-35%
Indonesia	5-35%	Turkey	15-35%
Ireland	20-41%	Ukraine	15%
Israel	20-41%	United Arab Emirates	0%
Italy	23-43%	United Kingdom	0-40%

				<b>Notes</b>
Japan	5-40%	United States	0-35% (federal income) 0-10.3% (STATE INCOME) 15.3% (federal payroll)	
Jordan	5-30%	Uruguay	?-24.125%	
South Korea	9%-21.375% + 36% excess	Uzbekistan	13-30%	
Latvia	25%	Venezuela	6-34%	
Lebanon	2-20%	Vietnam	0-40%	
Lithuania	15%/27%	Zambia	10-30%	

Source: [http://en.wikipedia.org/wiki/Tax\\_rates\\_around\\_the\\_world](http://en.wikipedia.org/wiki/Tax_rates_around_the_world).

Thus, MNCs pay tax equalization allowance, to offset the loss of after tax salary, if any due to variations in tax rates in different countries in the world. This allowance allows the employees to get more or less the same level of after tax salary in the host country also.

**International Market Allowance**

Employees with distinctive skills and skills of short supply are demanded by many MNCs across the world. MNCs, in order to attract such employees pay competitive salary, by adjusting the compensation package. Adjustment of compensation package in this regard would be payment of international market allowance.

Some MNCs include cost of living allowance, tax equalization allowance and exchange rate stabilization allowance in the international market allowance. However, international market allowance is to attract the employees by paying more than what they are offered by competitive employers. Public Sector organizations like Telikom (PNG) Limited Universities, Eda Ranu Limited and Private Sector organizations and MNCs like Digicel (PNG) Limited, Pricewaterhouse Coopers and Delloittee pay international market allowance, in addition housing allowance and children education allowance.

**Housing Allowance**

House rents in some cities/countries would be exorbitant and some times they are more than the employees after tax salary. In fact, house rents in Papua New Guinea as on to-day (June 2008), are more than some employees' after tax salary (when the house rent in which the employee resides is taken into consideration). This position is more or less similar in Sydney, (Australia), Tokyo (Japan), Paris (France), Geneva (Switzerland) and London (U.K). It would be rather difficult for an employee to accept overseas employment with such exorbitant house rents. They can't live in similar houses of their home country, even if they accept foreign employment with exorbitant rents. Hence, MNCs pay house rent allowance equivalent to on-going house rents in the place of employment. Some MNCs procure the houses on lease and pay the actual house rent directly to the house owners and relieve the employee from uncertainties of house rent cost hikes from time to time as well as cultural issues/ harassment from the land lords. House rents in cities in developing countries like Chennai (India) and Australia have been on abnormal increase. (See Boxes 5.2 and 5.3).

## Notes

**BOX 5.2: CHENNAI HOUSE RENT BOOM**

Chennai house rent and sale price is hiked from 50% to 100% in the last two years. Especially in south madras (Chennai). India holding the largest middle class population in the world. But its metro cities seem to be not suitable for middle class dwelling. Cost of living in metro cities especially like IT hubs like Bangalore, Hyderabad, and Chennai are going beyond the purchasing power of middle class people.

IT Boom and outsourcing success. Western and European money (currency) coming to India through software outsourcing. Most of the companies sky scrapping salary to its employees. They have more purchasing power than others. Because of this sectors, House rent and price are increased. Moreover, 70% of IT employees are youngsters and not married. They do not have big family commitments. They form a group of 4 to

5, occupy a house and share the rent. Their monthly total income of the group will reach 2 to 3 lakhs(INR). For them rent is not a big issue. Since they are going to share rent, which is not an issue what ever it may be. This group's paying power is more than a single man earning family. Single man earning family cannot afford or what group of bachelors can afford. House owners are increasing the rent because of this high earning cum low commitment group of bachelors. These bachelors will suffer by the house rent when they raise their independent family. Western currency especially American dollar coming to India through IT out sourcing is ultimately and indirectly going to financial institutions both Government and Private, and House owners of Indian metros and Real Estate industry. They will be prospering in the next decades more than other sector people.

*Source:* [http://www.blogya.in/chennai\\_house\\_rent\\_boom](http://www.blogya.in/chennai_house_rent_boom).

Thus, housing allowance is included in the compensation package in order to enable the expatriates to live in the houses comparable to their home town or previous places of employment and to protect their standard of living and ability to save. MNCs in addition to, paying house rent, also provide white goods in the houses in order to make the employee's life comfortable in a foreign country.

**BOX 5.3: RENTS IN AUSTRALIAN CITIES WILL SOAR IN THE NEXT FOUR YEARS**

Rents in major cities will rise by 50 per cent over the next four years, a report predicts. Most major cities had seen double-digit percentage rises in house rents over the past year as advertised listings dropped to a five-year low, Australian Property Monitors said in its March quarter rental series. APM general manager Michael McNamara said rental supply was tight as a drum. "As Gen Y leaves home and strong migration patterns take effect, our construction sector struggles to keep up the supply of well-located, affordable property to

accommodate a growing population of renters," he said.

Mr. McNamara said given the time lag from approval to completion in building construction, the flow-on effects were likely to continue throughout the rest of this decade and beyond. "This is not good news for renters ... we advise renters to lock in their current arrangements for as long as they can," he said. He said many would-be homeowners continued to be deterred from buying through high mortgage rates and deteriorating affordability.

*Source:* <http://www.news.com.au/business/money/story/0,25479,23479441-5013951,00.html>.

**Educational Allowance**

Educational allowances for expatriates include cost of language training to employee and his/her family members, training and educational cost for employee's continuous learning and development and educational expenses of school/university going children of the employee.

Educational allowance is necessary as the cost of school fee and university fee is exorbitant in some countries like USA, UK and Australia as well as it is very high

compared to these at the home. In some cases, the total school fee of two/three children in a foreign country is more than the after tax salary of employees. For example, school fee for three children in the Grades of 11 and 12 of International Schools in Papua New Guinea would more than the after tax salary of a University Professors, accountant and medical doctors in Papua New Guinea. Under such circumstances, employees with school going children can't accept foreign employment unless the foreign employer pays for educational allowances. Therefore, MNCs pay educational allowances, in order to free the employees from paying heavy school fee and also get quality of education similar to that of home country. Payment of educational allowances allows the MNCs to attract competent employees.

### **Relocation Allowance**

Movement of an employee and his/her family members from the home country to a foreign country involves a variety of expenses like temporarily closing up of the family activities and professional activities at the home, transferring the children from the home country school/university to the foreign schools/universities, payment of advanced taxes, rents and fee at the home country, acquiring visa, travel to foreign country, freight and loss of certain things including baggage. In addition, employee incurs additional costs in foreign country while settling-in a foreign country. Thus, employee involves dislocation and relocation costs. MNCs provide relocation allowance, in order to relieve the employee from meeting additional financial commitments.

### **Settling-in and Settling-out Allowances**

Settling-in and settling-out allowances are similar to relocation allowances. MNCs provide settling-in allowances in order to reduce employee's financial burden from buying various goods/services when they arrive in a foreign country. Settling-out allowance is provided to meet the costs of leaving for home country or any other foreign country.

### **Hardship Premium**

Foreign jobs in certain locations like Afghanistan and Iraq during 2003-2008 are highly critical and dangerous. In fact, Mr. Suryanarayana a resident of Hyderabad, India who was working in Afghanistan in a civil construction company was killed by the Taliban militants. Similarly, South Korean health workers were kidnapped in Afghanistan (See Box 5.4). In addition, terrorist activities in certain locations like in Kashmir (India) and radicals' activities create problems for foreigners to work. Further, the dangerous geographical conditions like earth quakes in Indonesia, physical threat, violence and hostility to foreigners from locals make the foreign employment difficult. The Wars between the countries like Iran-Iraq war, Iraq-Kuwait war, and Eritrea and Ethiopia war also created problems for foreigners who worked in these countries during the war periods. Further, the military coups like those in Pakistan and Fiji Islands caused discomfort for the foreigners worked in these countries.



## Notes

## BOX 5.4: TALIBAN RELEASES REMAINING SOUTH KOREAN HOSTAGES

Taliban militants on Thursday 30<sup>th</sup> August 2007, released the final seven South Korean captives, bringing an end to a six-week hostage drama. Witnesses said the captives were released in two stages. First, the militants handed over two men and two women to officials from the International Committee of the Red Cross on a road in the Janda area of central Afghanistan. Then, two women and one man who were covered in dust walked out of the desert, accompanied by three armed men, and were also turned over to waiting ICRC officials.

South Korean presidential spokesman Cheon Ho-sun said Thursday that the group will be heading to Kabul before returning home via Dubai. The Taliban originally kidnapped 23 South Koreans as they traveled by bus from Kabul to the former militant stronghold of Kandahar on

July 19. In late July, the militants killed two male hostages, and they released two women earlier this month as gesture of goodwill. Another 12 were freed on Wednesday. The Taliban gave up on their demands that militant prisoners be swapped for the hostages. Instead, they accepted face-to-face talks with a South Korean delegation. It pledged that the country's 200 troops would leave Afghanistan by the end of the year as originally planned. The South Korean delegation also agreed to prevent its citizens from working in Afghanistan. A senior Afghan lawmaker says Saudi Arabia and Pakistan pressured the Taliban from behind the scenes to release the hostages. But Afghan officials say they worry the fact the Taliban was able to negotiate directly with the South Koreans will only spur more kidnappings.

Source: <http://www.npr.org/templates/story/story.php?storyId=14045376> (30/08/2007).

Added to these hardships, prevalence of disease, inadequate/poor medical facilities in some developing countries particularly of those Africa, and South American countries create further hardship for foreigners to live and work in such countries.

The place of work particularly in civil construction companies, oil drilling and mining companies would be far from the cities and villages, where almost no one lives. Such places of work create sociological and psychological discomfort and isolation to the employees. These locations further create hardship in view of non-availability of housing, educational, medical, shopping and recreational facilities and services. Most of the foreigners are reluctant to work in such risky and uncomfortable locations.

Further certain foreign jobs are harder to perform. For example, the job of international human resource manager under multi-cultural environment and the job of negotiator under diversified cultures are hard to perform. Therefore, MNCs pay hardship pay/premium/allowance to recruit and retain employees for such locations as well as jobs.

It is rather difficult for MNCs to recruit as well as retain the employees for such hard jobs and risky and discomfort locations, with the normal compensation package. Therefore, MNCs offer special allowance, i.e., hardship allowance in order to attract and retain employees for hard jobs as well as jobs in hard locations.

Hardship allowance varies from 5% to 25% of base salary. A survey conducted by Runzheimer International consulting firm indicates that the MNCs operating in Israel paid 42.5% of base salary as hardship allowance. MNCs in Saudi Arabia paid 25% of base salary as hardship allowance, while the MNCs in United Arab Emirates paid 12.5% of base salary as hardship allowance. Table 5.4 presents hardship allowance in different cities.



**Notes**

US Department of State Indexes of Living Costs Abroad Provides the hardship allowances. MNCs paid 25% of base salary as hardship allowance in Nairobi, Kenya and just 5% in Hong Kong. MNCs paid 15% of base salary as hardship allowance to their foreign employees in New Delhi, India.

Danger pay allowance is paid to employees where civil insurrection, civil war, terrorism, war time conditions threaten physical harm or pose imminent danger to the health or well-being of employee.

**TABLE 5.4: HARDSHIP ALLOWANCE IN DIFFERENT CITIES**

City and Country	Hardship Allowance (% to base salary)
Beijing, China	20
Cairo, Egypt	15
Hong Kong, China	5
New Delhi, India	15
Jakarta, Indonesia	20
Tel Aviv, Israel	10
Nairobi, Kenya	25
Kuwait City, Kuwait	15
Mexico City, Mexico	15
Moscow, Russia	15
Riyadh, Saudi Arabia	25
Istanbul, Turkey	10
Caracas, Venezuela	15

Source: US Department of State Index of Living Costs Abroad.

**Exchange Rate Protection Allowance**

Foreign exchange rate fluctuations greatly determine the repatriation amount to home country of foreign employees. Adverse fluctuations reduce the repatriation amount, and thereby discourage the foreign employees from continuation of employment. For example, the fluctuations in the value of US dollar against Indian Rupee during 2007 and 2008 (from 1US\$ = ₹ 46 to 1US\$ = ₹ 39), prompted some Indian software professionals working US companies to quit the US jobs and return to India. Similarly foreigners working in Papua New Guinea during 1998-2000 quit the jobs due to decline in the value of PNG Kina against US dollar (from 1US\$=PNGK0.98 in 1998 to 1US\$=PNGK3.20 in 2004). Similar incidents took place when the value of Russian Ruble declined significantly against US dollar during 1997-1998. Therefore, MNCs as well as domestic organizations employing foreigners pay the salary based on the exchange rate value on the day of commencement of employment or any other exchange rate based on mutual agreement. The difference between this agreed rate and the actual on-going rate from time to time is called exchange rate stabilization allowance. Some MNCs pay certain percentage of base salary as exchange rate stabilization allowance to offset the fluctuations in exchange rates. Thus, exchange rate stabilization allowance is expected to offset the fluctuations in exchange rates between the expatriate’s parent country’s currency and the currency of the foreign country where the expatriate is employed.

**Notes****Insurance Allowances**

MNCs either provide insurance allowance or buy insurance policies for employees in order to provide them security against all kinds of health issues, risks against life and physical security of employee and his/her family members. Different kinds of insurance facilities provided to employees include:

- Health Insurance
- Prescription Drug coverage
- Dental Insurance
- Vision insurance
- Travel insurance
- Life insurance
- Vehicle insurance
- Emergency medical evacuation and repatriation service
- Medical information, records and physician assistance.

**Stock Option:** Stock options are common in most of the MNCs in many countries. This benefit allows employees to purchase the shares of the MNCs at fixed and/or reduced prices. Employees are motivated when the MNC allows them to buy the shares at the reduced prices. The stock options are viewed as performance-based incentives. This scheme allows the MNCs to attract and retain competent employees, by creating a sense of belongingness and ownership among them.

**Bonus:** MNCs provide individual and/or group bonus to expatriates based on their performance like output, sales, productivity, savings and cost minimization. This benefit provides mutual advantage to the employees as well as MNCs.

**Gratuity:** Gratuity is the retirement benefit and/or contract-termination benefit. This benefit encourages the employees to continue their employment with the same MNC until the completion of contract and for the long run.

**Pension:** Some MNCs pay pension to the expatriates and host country nationals who served the company for relatively long-period. However, MNCs face complexities in pension payment with regard to calculation, country of origin, varying legal requirements of different countries, and fluctuations in exchange rates. Therefore, they limit pension facility to certain categories of employees only.

**Other Benefits:** MNCs provide a variety of other benefits to their employees, in addition to allowances as discussed above. These benefits include:

- Cafeteria
- Travel fares
- Recreational Allowances
- Facilities for physical and mental fitness
- Socialization programs
- Conveyance benefits

- Maternity and Paternity leave and benefits
- Legal aid
- Maintenance of expatriate's properties in their home country
- Credit facilities like credit cards, arranging for loans with financial institutions and granting loans
- Distress benefits
- Family support facilities.

**Notes**

**Social Security Measures:** MNCs provide various social security measures to their employees like.

- **For employment security:** Social security measures under this head include: unemployment measures, technological adjustment pay, leave travel pay, leave for negotiation, overtime pay, leave for grievance, call pay back, lay off pay and retiring rooms.
- **For health protection:** social security measures under this head include: accident insurance, disability insurance, health insurance, sick leave, sickness benefits etc.
- **For old age and retirement:** Benefits under this category include: deferred income plans, pension, provident fund, old age counselling, old age assistance etc.
- **For personal identification, participation and stimulation:** These measures include anniversary awards, credit, beauty parlour services, income tax aid, counselling, recreational programs, stress counselling, safety measures etc.

**Executive Compensation**

MNCs across the world pay attractive compensation for executives to attract and retain the best talent in order to enable them to craft most appropriate strategies and implement them. MNCs while doing so emphasize on attractive pay package for finance executives, marketing executives and human resource executives. However, MNCs pay different levels of compensation for executives in different countries based on the compensation levels in comparable firms and cost of living in respective countries. Table 5.5 presents executive compensation for finance, marketing and human resource executives in selected countries. It is clear from the table that the executives of all the three categories in USA received highest compensation while those in India received the lowest compensation in 2007 compared to those in other countries.

**Notes****TABLE 5.5: EXECUTIVE COMPENSATION LEVELS OF FINANCE, MARKETING AND HUMAN RESOURCES EXECUTIVE IN SELECTED COUNTRIES IN 2007.****HIGHEST REMUNERATION LEVELS FOR DIFFERENT KINDS OF EXECUTIVES IN VARIOUS COUNTRIES IN 2007**

<b>FINANCE EXECUTIVES</b>		
<b>Country</b>	<b>Annual base salary (in US\$)</b>	<b>Annual total cash (in US\$)</b>
US	250,000	324,600
Canada	186,400	262,700
UK	180,200	236,600
Hong Kong	168,500	212,000
Italy	159,000	197,500
Germany	154,400	202,300
France	148,300	179,500
Australia	146,400	175,700
Brazil	140,500	205,700
Spain	132,800	146,400
Singapore	125,800	162,900
Poland	108,200	128,000
Hungary	59,800	77,500
India	53,800	63,800

*Source: www.finfacts.com*

<b>MARKETING EXECUTIVES</b>		
<b>Country</b>	<b>Annual base salary (in US\$)</b>	<b>Annual total cash (in US\$)</b>
US	203,100	261,200
Italy	169,100	201,100
UK	167,800	217,200
Germany	165,000	210,600
Canada	148,600	191,800
Hong Kong	143,200	175,800
France	132,400	156,100
Spain	128,400	146,000
Australia	126,100	154,100
Brazil	123,400	180,500

Poland	110,600	130,800
Singapore	109,100	142,000
Hungary	91,000	100,300
India	40,000	47,200

**Notes**

HUMAN RESOURCES EXECUTIVES		
Country	Annual base salary (in US\$)	Annual total cash (in US\$)
US	175,000	219,000
UK	161,900	202,500
Germany	160,500	227,500
Hong Kong	149,500	186,600
Italy	148,800	178,200
Canada	145,805	188,600
Brazil	134,900	200,000
France	130,300	147,500
Australia	124,400	143,400
Spain	124,200	147,400
Singapore	120,800	155,700
Poland	96,100	111,200
Hungary	57,100	71,800
India	47,900	55,700

## 5.6 APPROACHES TO INTERNATIONAL COMPENSATION MANAGEMENT

Different MNCs follow different approaches to compensation determination, revision and adjustment. There are eight approaches to international compensation management. There are:

- Salary Level in Host Country
- Negotiation/Bargaining Approach
- Lump sum Approach
- Buffet Approach
- Cluster Systems Approach
- Global Approach
- Mutual Investment Approach
- Performance-Based Compensation Approach

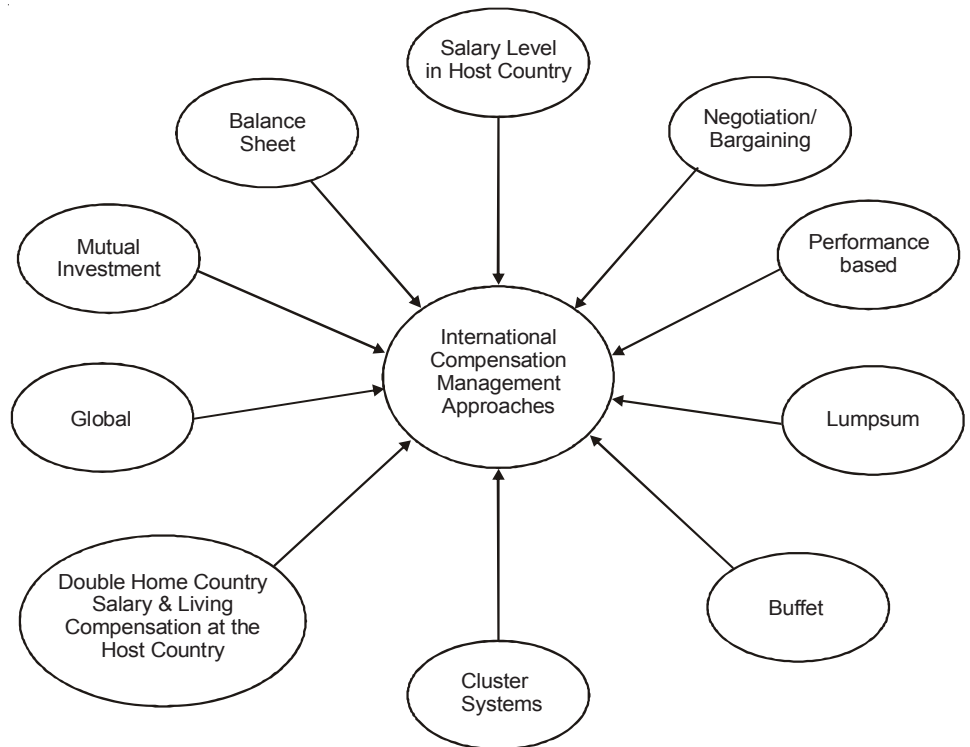
**Notes**

- Double Home Country Salary & Living Compensation at the Host Country.
- Balance Sheet Approach.

Now, we shall discuss these approaches to international compensations management. Fig. 5.4 presents various approaches to international compensation management.

**Salary Level in Host Country Approach**

Salary level in host country approach is also called localization approach. International compensation under this approach is based on salary levels for similar jobs in comparable organizations in the host country. For example, HSBC in India pays salaries to Indians (host country nationals), Chinese (parent country nationals) and Americans (third country nationals) based on (i) salary levels of Indian banks like ICICI Bank, IDBI Bank and HDFC Banks or (ii) salary levels of foreign banks operating in India like Citi Bank or salary levels of other Chinese financial institutions operating in India.



**Fig. 5.4: Approaches to International Compensation Management**

Thus, the going salary level in host country of comparable organization is taken as a basis for determining the salary levels by an MNC.

This approach is well received by the host country nationals in most countries except in the most advanced countries when the expatriate is from a developing country. In addition, expatriates appreciate this approach, when they are transferred to an advanced country. The host country nationals particularly from developing countries feel equity in salary levels.

However, it would be difficult for MNCs to attract and retain expatriates by simply paying the salary levels equal to those of comparable organizations, in their

operations in developing countries. Therefore MNCs, under this approach, pay base salary equal to those of host country nationals and other expatriates and pay different kinds of allowances and benefits in addition to base salary to expatriates. For example, HBSC pays international market allowance and overseas assignment allowance at varying rates to expatriates of different countries in addition to base salary to the Chinese expatriates and other expatriates working in its Indian branches based on the salary levels of ICICI Bank and IDBI Bank.

Therefore, Chinese expatriates in India would get total salary more than that of the host country nationals (i.e., Indians). This discrepancy creates a sense of disparity among host country nationals. (See Box 5.5).

#### BOX 5.5: WAL-MART BIAS CASE TO GO TO TRIAL: PAY DISCRIMINATION

##### **Wal-Mart will face a lawsuit claiming pay discrimination against more than a million female US employees after a court approved the action**

A federal appeals court upheld a 2004 ruling giving the lawsuit class action status, sanctioning claims from up to 1.5 million current and former staff. Should it lose the case, the world's largest retailer could have to pay damages worth billions of dollars. Wal-Mart has said it did not have a policy discriminating against women. The world's largest retailer said it would appeal against the verdict.

##### **'Evidence'**

The original lawsuit was filed in 2001 by six women who either worked for Wal-Mart or had done so in the past. A lawyer representing the women said they had "been waiting years for this decision". In a split two-to-one verdict, the San Francisco court ruled that the country's largest class action lawsuit against a private employer could proceed. Judge Martin Jenkins said sufficient evidence existed of discriminatory practices dating back to 1998 to support the case going to trial. "Factual evidence, statistical evidence and anecdotal evidence present significant proof of a corporate policy of discrimination and support plaintiff's contention that female employees nationwide were subjected to a common pattern and practice of discrimination," he said. But in his dissenting opinion, Judge Andrew Kleinfeld said the only evidence of discrimination provided was the fact that the number of female managers at Wal-Mart stores was disproportionately lower

than the total number of female staff. "This case poses a considerable risk of enriching undeserving class members and counsel, but depriving thousands of women actually injured by sex discrimination of their just due," he argued. Whatever the outcome of Wal-Mart's appeal, the case - first heard in 2003 - is unlikely to come to trial for some time. The lawsuit only applies to women employed by Wal-Mart since 26 December 1998. At any future trial, the plaintiffs will need to establish that Wal-Mart had a company-wide policy of paying female staff less than men and those workers had no right to argue their individual cases.

##### **'Confident'**

Lawyer Brad Seligman, who is representing the women who brought the case, said the merits of the case had now been recognised twice. "We fully expect Wal-Mart to keep appealing but we are very confident now that two courts have upheld this certification," he said. Wal-Mart has argued that granting the lawsuit class action status is inappropriate because its 3,400 stores operate as individual businesses and that issues of pay and promotion are decided locally. It said workers who believed they were victims of discrimination could sue individual stores. Criticised in the past for poor employment practices, something which it has always denied, Wal-Mart has launched a host of diversity and environmental initiatives in recent years. But last year, the retailer was ordered to pay at least \$78m in compensation to workers after a court found it had broken the law by not paying staff for working during breaks.

Source: <http://news.bbc.co.uk/2/hi/business/6336753.stm>.



**Notes**

Advantages and disadvantages of this approach are presented in Exhibit 5.1.

**EXHIBIT 5.1: ADVANTAGES AND DISADVANTAGES OF SALARY LEVEL IN  
HOST COUNTRY APPROACH**

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Host Country Nationals feel a sense of equity in treatment along with expatriates.</li> <li>• Feel of a sense of equality among expatriates of different nationalities and host country nationals.</li> <li>• Cost of human resources is low in developing countries.</li> </ul>	<ul style="list-style-type: none"> <li>• Feel of discrimination among host country nationals compared to those of expatriates due to wide variation in allowances and consequently total salaries.</li> <li>• Feel of discrimination among expatriates of different nationalities.</li> <li>• Problem of retention of employees.</li> <li>• Problem of recruitment of competent</li> </ul>
<p><i>Source: Adapted from Peter J. Dowling and Device E. Welch, op. cit., p.145.</i></p>	

### **Negotiation/Bargaining Approach**

Some employees as well as MNCs prefer to determine the compensation package through mutual negotiations between the employee and the employer. Determination of compensation package would be possible when:

- The number of expatriates is relatively less;
- The company and the prospective employee have full knowledge of on-going salary levels, house rent cost and cost of living in host country; and
- The skills of the prospective employee are in short supply.

Employee as well as MNC will not have grievances over salary and benefits until the contract period is over as both of them mutually decided the compensation package. However, either of the parties may be disappointed when they realize the ground realities in the host country. Added to this, the host country nationals may have the feel of inequality.

Exhibit 5.2 presents the advantages and disadvantages of this approach.

**EXHIBIT 5.2: ADVANTAGES AND DISADVANTAGES OF NEGOTIATION/BARGAINING  
APPROACH**

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Mutual satisfaction of employee and employer.</li> <li>• Compensation is determined based on the MNC's ability to pay.</li> <li>• Sense of belongingness to the expatriates towards MNC.</li> <li>• Employees get the doubts clarified.</li> </ul>	<ul style="list-style-type: none"> <li>• Dissatisfaction when the ground realities in host country are different.</li> <li>• Feel of inequality among host country nationals.</li> </ul>

### **Lumpsum Approach**

Under this approach, MNC determines the total package in money value that covers the base salary, all kinds of allowances and benefits. The employee is provided with the freedom of allocating the money and deciding up on the type and quality of housing, medical, conveyance, education for self and family members, air travel, recreational facilities, taxation, repatriation of savings, settling-in, settling-out, exchange rate protection etc.

A number of MNCs and AusAid follow this approach. Exhibit 5.3 depicts the advantages and disadvantages of this approach.

**EXHIBIT 5.3: ADVANTAGES AND DISADVANTAGES OF LUMP SUM APPROACH**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Employee has options to allocate the money for various items of expenditure.</li> <li>• Employee has a little scope for grievance over quality, convenience and comfort of benefits.</li> <li>• MNCs can reduce cost and inconveniences of benefits and salary calculations administration.</li> </ul>	<ul style="list-style-type: none"> <li>• Host country nationals have a feel of inequity in compensation package.</li> <li>• Possibility of tax avoidance.</li> <li>• Employee may not go for qualitative housing and other benefits that affect his/her work performance/behaviour (with an intention to save more money).</li> </ul>

**Buffet Approach**

MNCs design the approach of paying less cash and providing more benefits in the compensation package as expatriates prefer to reduce tax burden and save as much as possible in order to repatriate the savings (either to the home country or other country of their choice). Under this approach, the total salary level is determined by the organization and the employee is given an option to decide the cash component and benefits component in the total compensation package. Employees normally select more components of benefits depending up on their needs and the remaining portion of the compensation in the form of cash. This option reduces the tax burden. This method, though involves high cost of compensation administration, helps the individual needs of employees. Exhibit 5.4 presents the advantages and disadvantages of this approach.

**EXHIBIT 5.4: ADVANTAGES AND DISADVANTAGES OF BUFFET APPROACH**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• This approach provides wider choice to expatriates.</li> <li>• This approach reduces tax burden of expatriates and thereby increases savings/repatriation amount</li> <li>• This approach enables MNCs to recruit and retain talent without increasing compensation levels as well as human resource cost of foreign employees.</li> </ul>	<ul style="list-style-type: none"> <li>• This approach leads to high cost of administration as each employee prefers different choices.</li> <li>• Host country nationals have a feel of inequality of compensation.</li> <li>• Host country nationals develop a discriminatory attitude as expatriates have wider choices and variety of benefits.</li> <li>• Reduces the tax income of host country government.</li> </ul>

**Cluster Systems Approach**

MNCs segment the countries and/or cities into clusters based on the cost of living and other factors like hardships and danger issues that affect the compensation package. They determine more or less same compensation package for each job within the same cluster of cities. Employees would be offered additional allowances, if any other factor that is applicable distinctively to a particular employee like medical attention/parental care, was not factored in the compensation package earlier. Employees would be offered other compensation packages, if they are transferred to the cities segmented in other clusters. This approach reduces the cost of complexities in the compensation administration. Further, it enhances the feeling of equity among

**Notes**

expatriates of different nationalities. Exhibit 5.5 presents the advantages and disadvantages of cluster systems approach.

**EXHIBIT 5.5: ADVANTAGES AND DISADVANTAGES OF CLUSTER SYSTEMS APPROACH**

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Simplifies the administration of compensation.</li> <li>• Reduces the ambiguity of salary comparison among expatriates.</li> <li>• Feel of equity among expatriates.</li> <li>• Provision of flexibility for adjustment of special issues/cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Feel of dissatisfaction among the host country nationals.</li> <li>• Feel of dissatisfaction among those expatriates whose skills are in demand/ whose salaries are relatively high in their home country.</li> <li>• Absence of relief from tax burden to expatriates.</li> </ul>

**Global Approach**

Skills, knowledge, talents and competency requirements of certain jobs are uniform through-out the globe. Employees fit for such jobs are globally mobile. MNCs, under global approach determine the uniform pay scales for such jobs throughout all the countries where they operate. Further, these pay scales are applicable uniformly for all categories of employees including host country nationals. This approach is based on the concept of national pay scales with in a country plus bad climate allowance in tribal areas in tribal areas of Andhra Pradesh (India) and danger allowance in Kashmir (India) and war allowance in Iraq. This approach provides uniformity among all cities/countries and employees of all nationalities. Further, it creates a feel of equity among all expatriates and host country nationalities. Exhibit 5.6 presents the advantages and disadvantages of global approach.

**Performance–Based Compensation Approach**

Globalization and thereby enhanced competitive environment place heavy emphasis on employee performance and value creation and addition to the job as well as the organization. As such, the established practice is that MNCs design compensation package with a part of performance-based compensation.

**EXHIBIT 5.6: ADVANTAGES AND DISADVANTAGES OF GLOBAL APPROACH**

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Reduces the cost of administration of compensation.</li> <li>• Reduces the complexities of compensation administration.</li> <li>• Creates a feeling of equity among all expatriates.</li> <li>• Greatest advantage of exclusively this system is that it creates a feel of equity among host country nationals</li> </ul>	<ul style="list-style-type: none"> <li>• Increases the cost of compensation and thereby cost of human resources.</li> <li>• Increases the tax burden to employees and thereby less net salary</li> <li>• Employees do not have the advantages of other systems.</li> </ul>

The most recent trend is that MNCs design most part of the compensation package based on performance. This approach provides the opportunity for best performers to earn high salary irrespective of nationality including host country nationals. However, this approach provides a minimum guaranteed base salary irrespective of performance that would be enough to meet the basic needs of employees.

This approach is organization friendly as it enhances organization performance and increases value and productivity. Advantages and disadvantages of this approach are present in Exhibit 5.7.

**EXHIBIT 5.7: ADVANTAGES AND DISADVANTAGES OF PERFORMANCE-BASED APPROACH**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Enhances employee Performance.</li> <li>• Increases organizational productivity.</li> <li>• Enhances value to the organization.</li> <li>• Increases the feel of equity between the compensation and contribution within each employee.</li> <li>• Reduces cost of and complexities in compensation administration.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to measure the individual employee performance for all jobs.</li> <li>• Fails to consider cultural issues that effect performance.</li> <li>• Creates a feel of insecurity of pay and job among relatively less competitive employees, older employees and less dynamic employees.</li> <li>• Ignores human approach in compensation management</li> </ul>

**Double Home Country Salary and Living Compensation at the Host Country Approach**

Under this approach, MNCs determine the package in such a way that the expatriates get compensation best domestic salary plus living host country compensation.

Double home country salary would be the double of the best salary that a best candidate gets in the home country for a similar job. This would normally be the salary that the expatriate can't get in his/her home country under normal circumstances. Normally, MNCs arrange to pay this component of competitive/double home country salary in home country currency. (See Table 5.6).

The component of 'living compensation at host country' includes salary paid in cash in host country currency and benefits that would be enough to live a comfortable and decent life in the host country depending upon the job level in the organization hierarchy.

## Notes

TABLE 5.6. HOME COUNTRY SALARY AND HOST COUNTRY SALARY-ASSIGNMENT COSTING

Organization:	ABC	COL Index:	123.5
Home Country/State:	Canada(Ontario)	Exchange Rate:	1.56
Host Country/Location:	Washington,D.C.	Date of Index/ Exchange Rate:	12-Oct-2001
Name/Ref:	TBA	Job Title:	
Home Currency	CDN	Host Currency:	US Dollars
Family Status:	Married	Prepared By:	GLP

Home Currency (CDN\$)    Host Currency (USD\$)

*BREAKDOWN OF HOME SALARY*

Base Salary	C	\$135,000
Bonus/Allowance/Other		
<b>Home Gross Pay</b>		\$135,000
RRSP Contributions (Pre-Tax)		\$(13,500)
<b>Taxable Income</b>		\$121,500
Hypothetical Tax		\$(48,600)
<b>Home Net Pay</b>		\$72,900
Split into:		
Spendable (to be indexed)		\$47,520
Hypothetical Housing		\$20,250
Other/Savings (not indexed)		\$5,130

Home Currency (C\$)    Host Currency (US\$)

*BREAKDOWN OF HOME SALARY*

<b>Host Related Component</b>				
Spendable X COL Index	47,520	123.5	58,687	37,620
	100	100		
Host Country Housing			\$28,800	18,462
Other/Savings (not indexed)			\$5,130	8,003
Add RRSP			13,500	8,654
<b>ASSIGNMENT NET PAY</b>			<b>\$106,117</b>	<b>72,738</b>
Company Tax Cost			16,242	10,412
<b>ESTIMATED GROSS ASSIGNMENT PAY</b>			<b>108,859</b>	<b>74,496</b>

[http://www.erlimited.com/assignmentcosting.php\(22/11/2007\)](http://www.erlimited.com/assignmentcosting.php(22/11/2007)).

This approach reduces the tax burden of expatriates as well as guarantees the salary against exchange rate fluctuations due to the fact that part of the salary is paid in home country's currency of expatriates. However, this approach suffers from certain limitations like tax structure in home country as well as administrative complexities. Exhibit 5.8 presents the advantages and disadvantages of this approach.

**Balance Sheet Approach**

MNCs initially determine the compensation package based on various approaches discussed above and later they found that none of the above approaches can meet almost all requirements of the expatriates. This is due to the limitations of different approaches as discussed above. In addition, expatriates initially accept the compensation package offered by MNCs. But at the latter stages of their career they

**EXHIBIT 5.8: ADVANTAGES AND DISADVANTAGES OF 'DOUBLE THE HOME COUNTRY SALARY' PLUS 'LIVING COMPENSATION AT HOST COUNTRY' APPROACH**

Notes

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Guaranteed repatriation amount to the home country of expatriate.</li> <li>• Reduction in tax burden.</li> <li>• Decent living in host country.</li> <li>• Expatriates feel security and satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>• Feel of inequity among the host country nationals.</li> <li>• Complexity in compensation administration.</li> <li>• Cost of exchange rate fluctuations.</li> <li>• Complexities in compensation administration.</li> </ul>

would be highly selective of the jobs based on the multiple aspects of the compensation package as they are in demand by a number of MNCs. MNCs at this stage prefer to offer attractive compensation packages in order to attract the competent expatriates for middle and senior level jobs. These attractive compensation packages aim at providing better standard of living in the host country than that at home country:

- by paying salary higher than that of the home country;
- by reducing the tax burden at the host country through tax equalization allowance and/or by providing more benefits and less cash salary;
- by enabling the expatriate to get more repatriation amount through exchange rate protection allowance;
- by reducing the affect of high cost of living at the host country through COLA, housing rent allowance, educational allowance, medical allowance, insurance allowance etc.;
- by reducing physical and psychological impact of hardship and danger situations through hardship and danger allowances;
- by paying relocation allowance, settling-in and settling-out allowances in order to reduce the cost of relocation on the part of expatriate;
- by providing various benefits in order to provide alternative facilities to enjoy a variety of products and services;
- by providing bonus in order to encourage the expatriate for higher level performance through concentration on the job;
- by providing gratuity, pension and other social security measures to provide a feel of all kinds of security through-out the life of the expatriate; and
- by providing stock-option in order to create a sense of belongingness and ownership of the expatriate.

These various allowances and benefits/approaches are intended to offset the sacrifices of the expatriate at home country, inconveniences to be experienced at the host country in addition to provide the competitive salary and benefits received at the home country. Thus this approach balances the salary and benefits of home country, scarifies, inconveniences, discomforts, hardships, danger and the like at the host country through salary, allowances, benefits etc. Hence, this approach is called balance-sheet approach. Exhibit 5.9 depicts a model that explains balance sheet approach to international compensation.

As is presented in Exhibit 5.9, the salary and benefits at the home country, cots and inconveniences at the host country and other opportunity costs at the home

**Notes**

country are balanced with the salary, benefits and allowances offered by MNC/a foreign company. Hence, this approach of determining the compensation through balancing opportunity costs with salary, allowances and benefits is called balance sheet approach.

**Compensation Approach in Various Countries**

International compensation packages vary from country to country based on the economic system, cost of living, political system of the country, level of country's economic, political and social development, safety and physical security conditions in the country, availability of high quality housing, educational facilities, medical facilities and recreational facilities and compensation levels in the labour market in the country. However, MNCs prefer to have a global compensation approach.

**EXHIBIT 5.9: A MODEL FOR BALANCE SHEET APPROACH FOR INTERNATIONAL COMPENSATIONS**

<b>Scarifies/Inconveniences/Additional Costs</b>	<b>Offers by MNC</b>
<ul style="list-style-type: none"> <li>• Home country salary, benefits and allowances</li> <li>• High cost of living at host country</li> <li>• High cost of educational facilities at host country</li> <li>• High cost of house rents at the host country</li> <li>• High cost of medical facilities at the host country</li> <li>• High rate of taxation at the host country</li> <li>• Relocation expenditure at the home country</li> <li>• Relocation expenditure at the home country</li> <li>• Settling-in and settling-out expenditure at the host country</li> <li>• Loss of/opportunity cost of retirement benefits at the host country</li> <li>• Loss of salary earned at host country due to exchange rate fluctuations</li> <li>• Hardships in host country and host country jobs</li> <li>• Danger at host country due to war/civil unrest.</li> </ul>	<ul style="list-style-type: none"> <li>• Attractive salary offer by MNC (significantly more than that of home country offer)</li> <li>• COLA</li> <li>• Educational allowances</li> <li>• House rent allowance/comfortable housing facility</li> <li>• Medical allowance</li> <li>• Tax equalization allowance</li> <li>• Relocation allowance</li> <li>• Settling-in and settling-out allowance</li> <li>• Retirement benefits like gratuity, pension, and other social security measures.</li> <li>• Maternity and paternity benefits</li> <li>• Exchange rate protection allowance</li> <li>• Hardship and danger allowance</li> <li>• Insurance allowance.</li> </ul>
<b>Opportunity Cost</b>	<b>= Total offers of a foreign job by MNC</b>

International compensation, though it has global approach, MNCs of various countries follow different approaches in managing international compensation. Now, we shall discuss compensation approaches of USA, Europe, Japan, Russia and Southeast Asia.

**Compensation Approach in USA**

Compensation package of American executives include: base salary, bonus, long term incentives and other benefits and peaks. The base salary is a small part of



**Notes**

the total package. For example, Lee Iacocca, Chairman and CEO of Chrysler Corporation earned 20% of the total compensation as the base salary, and stock options and other benefits account for nearly 80% the total compensation package. American executives earn significant portion of their salaries in the form of performance based pay. However, there are arguments that most of the American executives have not been paid their salary based on their performance. But, American companies have been approaching the system of linking significant portion of the compensation package to employee performance. For example, 'Toys 'R' Us' pays 1% of its corporate pre tax profits as incentive salary to its Chairman. Performance based salaries motivate the executives to design strategies towards maximizing the employee performance and corporate profits.

Stock options are an important source of creating wealth and earning long-term and deferred income for the American executives. American executives receive a variety of benefits like insurances, tax incentives, club membership fee, personal tax planning, low or no interest loans, deferred compensation, first class air travel, retirement benefits and moving allowances.

American executives' compensation package depends upon the company size, company's annual revenue level, job duties and job level of the executive and the city where the company operates in the country.

Women executives have been growing in number in American MNCs. In fact, they are managing the organizations more successfully than before and as successfully as men executives. The ratio between the men's salary and women's salary has been shifting from 1:0.51 to 1:0.67.

**Compensation Approach in Europe**

Generally, European executives are paid less compensation than that of American executives. However, the compensation disparity between American executives and European Executives will be narrowed down with the increased phase of globalization. Among the large companies, the American chief executives get compensation package twice than that of European executives. European executives get less compensation mostly due to less amount of performance based pay, incentives, stock option and other long-term incentives. In addition, American executives get more salaries due to lower tax rate in USA (marginal tax rate is 28%) compared to those in European countries ( the marginal tax rate is 54% in Sweden, 46% in Netherlands, 35.35% in Germany and 34.13% in UK). European companies include tax free fringe benefits and perks like company cars, club membership, housing facility, augmented pensions, educational allowances and the like due to high rate of taxes. However, European companies have also been changing their compensation packages, of late, by including stock options, performance based bonus and long-term bonus.

**Compensation Approach in Japan**

The social and cultural environment in Japan is quite different from that of industrialized countries of North America and Europe. The compensation levels of CEOs of large companies in Japan are just one-third of those of American CEOs. As Japanese respect seniority and seniors, Japanese compensation is based on seniority of employees.

**Notes**

Significant features of compensation system in Japan include:

- Compensation level is based on the seniority of the employee in the company. This is to maintain the stability of employment. A 50-year old employee in Japan receives a salary three times more than that of a 25 year fresh graduate.
- Japanese employment approach and practices are distinct from those of other countries. Japanese employment is long term employment. So Japanese companies provide incentives in order to retain employees and provide stability in employment. In addition, Japanese companies provide group/team incentives as Japanese companies mostly practice team work. In addition, they provide life time income programs, retirement benefits/pension and the like.
- Small portion of the compensation package includes performance based pay.
- The benefits provided by Japanese companies include life insurance, accident insurance and medical insurance.

**Compensation Approach in Russia**

Russia has been transferring from communistic pattern of economic system to capital economic system, Puffer and Shekshnia examined compensation systems in Russia, and found that compensation package in Russia includes: basic salary, incentive pay and a variety of non-monetary benefits. Puffer and Shekshnia recommended that Western firms operating in Russian should design compensation packages that would contribute to the achievement of organizational objectives as well as paying the salaries equitably.

They recommended for inclusion of individual bonuses, small group incentives, long-term and short-time incentives in the compensation package. They further recommended tailoring the compensation package to individual preferences.

**South and Southeast Asia**

South and Southeast Asia region is distinct from Europe and North American countries in social, culture, economic and political factors. Countries of this region include south Korea, Singapore, Taiwan, Thailand, India, and Indonesia. The culture of this region includes collective living environment, strong relationship among family members and strong unity among relatives. The family members feel unity among themselves. Following this social structure, companies design the compensation package with fewer gaps between the salary of lower level employees and higher level employees. Therefore, compensation packages include minimum pay, COLA, house rent allowance, and social security measures like sick pay, maternity leave, vacation pay and pension. Similarly, the compensation package also includes maximum pay that controls the companies to limit the highest pay.

**Compensation for Host Country Nationals**

It is quite harnessing to note that the expatriates and host country nationals doing the same job in the same company at the same place (city) receive varied compensation packages. In fact, sometimes host country nationals receive 33% of the salary what the expatriates receive. Expatriates' compensation package includes a variety of allowances and benefits in addition to the base salary as discussed

earlier. As discussed in balance sheet approach, expatriates are provided allowances and benefits due to their sacrifices, inconveniences, discomforts, hardships and dangers associated with the job in addition for their skills and knowledge. But, the host country nationals receive base salary, COLA and limited benefits and allowances based on employee skills, demand for and supply of the skills. Therefore, host country nationals are paid lower compensation compared to that of expatriates. For example, Russians in MNC in Russia receives 33% of the salary received by an American expatriate in the same company and the city. Similarly a Papua New Guinean receives nearly 33% of the salary received by an Australian expatriate in the same MNC and city in Papua New Guinea.

In an MNC in Papua New Guinea, host country nationals feel that they are paid salaries less than all kinds of expatriates like Filipinos, Indians, New Zealanders and Australians. Even expatriates are dissatisfied due to different salaries for different nationalities. For example, Filipinos feel that they are paid less than that of Indians and Indians feel that they are paid less than that of New Zealanders. In turn New Zealanders feel that they are paid less than that of Australians.

MNCs should carefully design the compensation package for host country nationals in order to minimize the level of dissatisfaction as well as the feeling of discrimination among host country nationals that provides the same or similar level of living standard with those expatriates. The additional allowances for expatriates may be provided in the form of their home country currency in order to create a feel of equity among host country nationals.

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## 5.7 EXPATRIATION AND REPATRIATION PROCESS

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There has been wide confusion over the usage of the term 'expatriate'. Dictionary meaning of expatriate is the one who left the home land. Therefore, an expatriate is the one who lives in a foreign country.

International business deals with those firms which deal in manufacturing and/or trading in products/services in foreign markets. It does mean that the organizations which limit their business operations within the boundaries of their respective domestic countries are outside the purview of the international business. But, such domestic companies some times employ foreigners in their operations due to shortage of required manpower domestically. For example PNG Power Ltd., a domestic electricity company in Papua New Guinea (PNG) employs foreigners due to shortage of people with required skills in PNG. These domestic companies have to apply international HRM practices for employees drawn from foreign countries. Therefore, domestic companies, though they are outside the purview of international business, they are within the purview of international human resource management.

The term 'expatriate' from the point of view of international human resource management is the one who is working and residing in a foreign country during his/her tenure of foreign employment. Therefore expatriates include (i) foreign employees working in domestic companies, (ii) parent country nationals working in MNC's subsidiary, (iii) third country nationals working in MNCs and (iv) host country nationals working in the Parent country of the MNC/TNC.

### Notes

**Inpatriates:** Some MNCs started using the term 'inpatriate'. To denote those employees transferred from subsidiary to headquarters. Employees, thus transferred include parent country nationals, host country nationals and third country nationals. Parent country nationals transferred back to their home land are invariably nationals of that country. Further, the other categories like host country nationals and third country nationals are invariably expatriates in the headquarters country.

In fact, the Institution for International Human Resources – A division for the US Society for HRM defines the term 'inpatriate' as a 'foreigner in the USA. In fact, such foreign managers are expatriates in USA and therefore the term 'inpatriate' need not be created.

Some authors define parent country national as 'inpatriate'. But the parent country nationals in a subsidiary are expatriates and they become nationals, when they are transferred back to the headquarters. Therefore, the term 'inpatriate' need not be conceptualized for 'IHRM' in general, even though some MNCs use this term for their operational convenience in denoting certain categories of employees particularly parent country nationals.

**Expatriates:** Expatriate is an employee working and living in a foreign country where he/she is a non-citizen. Thus, parent/home country nationals working in subsidiaries, host country nationals working in headquarters, third country nationals and 'other foreign employees' working in domestic organizations belong to expatriates category. For example, Mr. Krishna – an Indian citizen – working in Telikom (PNG) in Port Moresby, Papua New Guinea belongs to 'other foreign employees' category, under expatriates. (See Fig. 5.5).

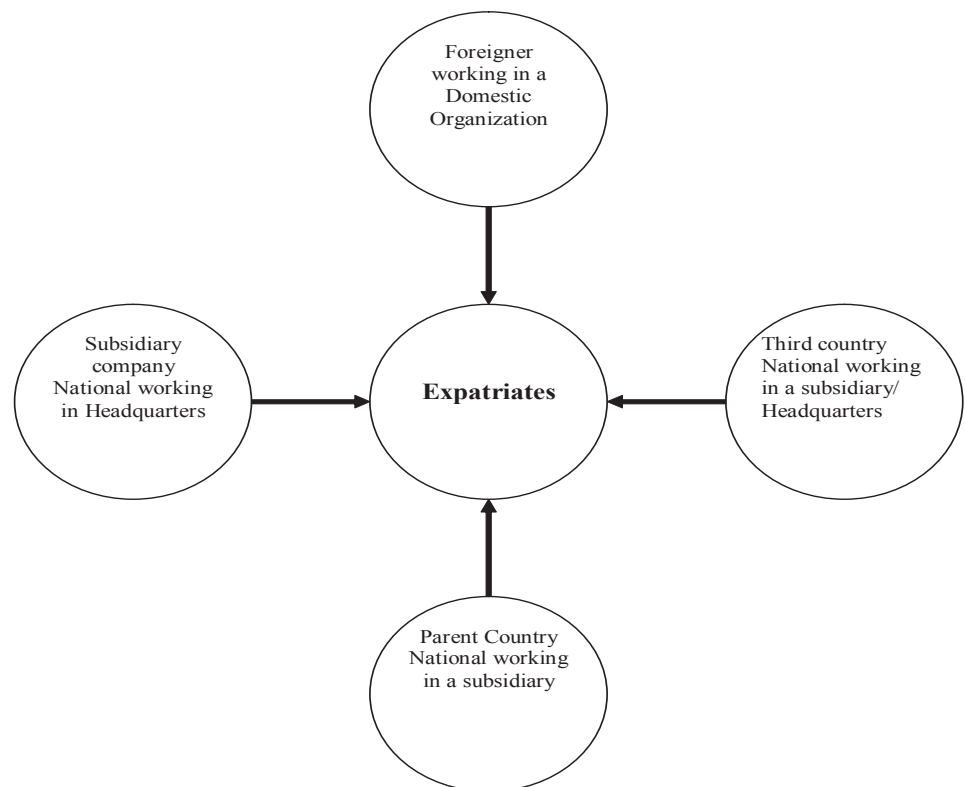


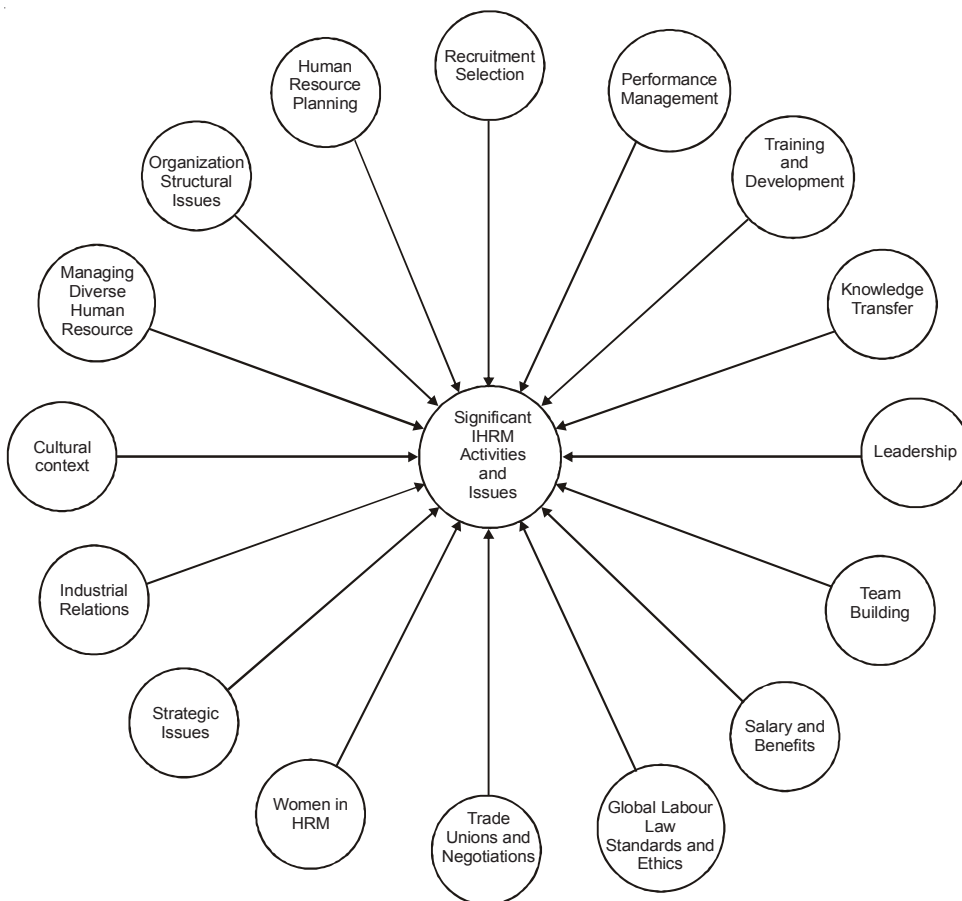
Fig. 5.5: Types of Expatriates

**Notes**

**Work Permit:** Almost all the countries impose a restriction on right to work or seek employment in their countries. The foreigners/non-citizens are normally required to obtain work permit. Work permit is a document issued by the Government of the Country concerned (mostly by the Department of Immigration) granting right to foreigners to seek employment in the country concerned.

**Guest Employees:** Foreigners with distinctive and rare skills are invited to perform certain activities during a specified period. Such foreign employees are called 'guest employees'.

Now, we discuss the meaning and major activities of human resource management. Human resource management is managing procurement, development, compensation, integration and maintenance of people of an organization in order to contribute duly to the individual, organizational and social goals. The significant HRM activities include (See Fig. 5.6):



**Fig. 5.6: Significant International HRM Activities and Issues**

- Job/Work design and job analysis;
- Human Resource Planning;
- Recruitment;
- Selection, Placement and induction;
- Performance Management;

**Notes**

- Training and Development;
- Career Planning and Development;
- Remuneration and Benefits;
- Human Relations (Motivation, Leadership, Morale, Teamwork, Empowerment, Grievance Redress, Cross-Cultural Management, Social Relations);
- Industrial Relations (Union-Management Negotiations, Participative Management, Disputes Prevention and Settlement).

**5.8 SUMMARY**

- Managing compensation in MNCs and domestic companies employing foreigners is more critical and complex due to varying factors from country to country.
- International compensation management aims at maintenance of equity, attraction and retention of competent candidates.
- MNC's capacity to pay is based on its long-run profitability.
- MNCs adapting aggressive and offensive business strategies would like to be competitive and craft competitive compensation strategies.
- Country of the MNC's headquarters, its culture, cost of living, values and attitudes towards compensation influence the initial compensation structure.
- Labour market characteristics that influence compensation include demand for and supply of different categories of employees and their skills and knowledge.
- MNCs follow the compensation packages of other comparable MNCs in terms of industry, region, closeness in competition and size.
- Employees with distinctive skills and skills of short supply are demanded by many MNCs across the world.
- Settling-in and settling-out allowances are similar to relocation allowances.
- Hardship allowances are for taking risks by employees like war, terrorism, natural calamities etc.
- Stock-option benefit allows employees to purchase the shares of the MNCs at fixed and/or reduced prices.
- International compensation under this approach is based on salary levels for similar jobs in comparable organizations in the host country.
- MNC determines the total package in money value that covers the base salary, all kinds of allowances and benefits.
- MNCs design the approach of paying less cash and providing more benefits under buffet approach.
- MNCs balances the home salary and sacrifices and hardships of expatriates by the host country's salary and benefits.
- Double home country salary would be the double of the best salary that a best candidate gets in the home country for a similar job.
- Compensation package of American executives include base salary, bonus, long-term incentives and other benefits and peaks.

- Generally, European executives are paid less compensation than that of American executives.
- The social and cultural environment in Japan is quite different from that of industrialized countries of North America and Europe.
- Through the higher salary for an expatriate is essential to attract skills of short supply in host country, host country nationals feel compensation discrimination and experience dissatisfaction and frustration.

**Notes**

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**5.9 KEY TERMS**

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|--------------------------------------|----------------------------------------|
| • Goal Orientations                  | • Labour Market Characteristics        |
| • Local Conditions                   | • Home & Host Country Government Roles |
| • Industry Type                      | • Competitor's Strategies              |
| • Parent Country                     | • Competitive Strategy                 |
| • Organizational Culture             | • Human Resource Structure             |
| • Employee-Employer Relations        | • Subsidiary Role                      |
| • Level of Technology                | • Compensation Objectives              |
| • Equity                             | • Consistency                          |
| • Salary Level in Host Country       | • Negotiation/Bargaining Approach      |
| • Lumpsum Approach                   | • Buffet Approach                      |
| • Cluster Systems Approach           | • Global Approach                      |
| • Mutual Investment Approach         | • Pay or Base salary                   |
| • Cost of Living Allowance           | • Tax Equalization Allowance           |
| • International Market Allowance     | • Housing Allowance                    |
| • Educational Allowance              | • Relocation Allowance                 |
| • Settling-in Allowance              | • Settling-out Allowance               |
| • Medical Allowance                  | • Hardship and Danger Allowance        |
| • Exchange Rate Protection Allowance | • Insurance Allowance                  |
| • Stock-Option                       | • Bonus                                |
| • Gratuity                           | • Pension                              |
| • Benefits                           | • Social Security Measures             |
| • Performance-Based Compensation     | • Balance Sheet Approach               |

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**5.10 REVIEW QUESTIONS**

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1. What are the objectives of international compensation management?
2. Why and how is international compensation management critical and complex?
3. What are the different external environmental factors that affect international compensation management?
4. What are the different internal environmental factors that affect international compensation management?
5. What are the allowances paid by MNCs that are distinctive from that of pure domestic companies?



**Notes**

6. What is COLA and why is it important in international human resource management?
7. What is hardship allowance and why is it important in international human resource management?
8. What is tax-equalization allowance and why is it vital in international human resource management?
9. What are the different approaches of international compensation management? Discuss the merits and demerits of each approach.
10. Discuss the balance-sheet approach to international compensation management.