

UNIT V

HUMAN RESOURCE MANAGEMENT IN IB

Syllabus: Selection of expatriate managers- Managing across cultures -Training and development- Compensation- Disadvantages of international business – Conflict in international business- Sources and types of conflict – Conflict resolutions – Negotiation –Ethical issues in international business – Ethical decision-making.

Selection of Expatriates

The choice of employee for an international assignment is a critical decision. To choose the best employee for the job, the management should –

- Make cultural sensitivity a selection criterion
- Have expatriates in selection board
- Look for international experience
- Hire foreign-born employees as “expatriates” in future
- Screen spouses and families too

Recruitment and Selection

Recruitment is a process of attracting a pool of qualified applicants. **Selection** is choosing applicants from this pool whose qualifications match the job requirements most closely. Traditionally, there are three types of employees –

- **Parent Country National** – The employee’s citizenship is same with the organization.
- **Host Country National** – The employee is local for the subsidiary.
- **Third Country National** – The employee is from a different country, i.e., not where the organization is registered / based and also where the subsidiary of the organization is not located.

Staffing and managing approaches strongly affect the type of employee the company looks for. In **Ethnocentric approach**, the parent country nationals are chosen for headquarters and subsidiaries. In **polycentric approach**, host country nationals work in the subsidiaries, while parent country nationals are chosen for headquarters. An organization with a **geocentric approach** chooses employees purely based on talent, regardless of their origin type.

A balance between internal organizational consistency and local labor practices policy is a goal during recruitment. People in achievement-oriented nations consider skills, knowledge, and talents while hiring a new employee.

Process of Selecting Expatriates

The figure illustrates the factors involved in the expatriate selection, both in terms of the individual and the specifics of the context concerned. These factors are interrelated.

- Technical Ability
- Cross-cultural Suitability

- Family Requirements
- Cross Cultural

- MNCs Requirements
- Language

Technical Ability

A person's ability to perform the required tasks is an important consideration and so technical and managerial skills are therefore an essential criterion in selecting expatriates. Indeed, research findings consistently indicate that multinationals place heavy reliance on relevant technical skills during the expatriate selection process.

Reinforcing the emphasis on technical skills is the relative ease with which the multinational may assess the candidate's potential, as technical and managerial competence can be determined on the basis of past performance.

Since expatriates are predominantly internal recruits, personnel evaluation records can be examined and checked with the candidate's past and present superiors. The dilemma though is that past performance may have little or no bearing on one's ability to achieve a task in a foreign cultural environment.

Cross-cultural Suitability

The cultural environment in which expatriates operate is an important factor in determining successful performance. Expatriates require cross-cultural abilities that enable the person to operate in a new environment.

According to experience and research, there appears to be a consensus that desirable attributes should include cultural empathy, adaptability, diplomacy, language ability, positive attitude, emotional stability and maturity.

Effectiveness skills is defines as the ability to successfully translate managerial or technical skills in to the foreign environment, whereas coping skills enable a person to become reasonably comfortable or at least survive in the foreign environment. It is not easy to define inter-cultural competence and even more difficult to measure it. What is needed is to measure relational ability of a person, i.e his/her ability to relate with another cultural group, which is also a personality related trait.

Family Requirements

The contribution that the family, particularly the spouse, makes to the success of the overseas assignment is now well documented. For example, Black and Stephens (1989) examined the influence of the spouse on an American expatriate's adjustment. They found that the adjustment of the spouse was highly correlated to the adjustment of the expatriate manager.

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

Cross Cultural

Requirements In some cases, the multinational may wish to use an expatriate and has selected a candidate for the international assignment, but may find that the local Government do not allow it. Many developed countries are changing their legislation to facilitate employment related

immigration which will make international transfers somewhat easier. It is important that HR staff keep up-to-date with relevant legislative changes in the countries in which the MNC is involved.

Further, the host country may be an important determinant. Some regions and countries are considered 'hardship postings': remote areas away from major cities or modern facilities; or war-torn regions with high physical risk. Accompanying family members may be an additional responsibility that the multinational does not want to bear. There may be a reluctance to select females for certain Middle East or South East Asian regions and in some countries a work permit for a female expatriate will not be issued.

MNCs Requirements

Apart from expatriate related factors, there are contextual factors, such as management philosophy and approach of the MNC- whether it is ethnocentric, polycentric, region-centric or geocentric. The status of the MNC-whether it is an international, multi-domestic, transnational or global company-also influences this decision to a great extent. Other situational factors include:

- The mode of operation involved: Selecting staff to work in an international joint venture may involve major input from the local partner and constraints imposed by the JV agreement terms.
- The duration of the assignment: Family members tend not to accompany an expatriate when the assignment is for a short duration, so family may not be a strong factor in the selection.
- The amount of knowledge transfer inherent in the expatriate's job in foreign operation: If the nature of the job is to train local staff, then the MNC may include training skills as one of the selection criteria.

Language

Language skills are be considered as of critical importance for some expatriate positions, but lesser in others, though some would argue that knowledge of the host country's language is an important aspect of expatriate performance, regardless of the level of position.

Differences in language are recognised as a major barrier to effective cross-cultural communication. Yet, in terms of the other selection criteria we have examined above, from the multinational's perspective, language is placed lower down the list of desirable attributes.

Managing Across Cultures

Managing across cultures is the ability of people leaders to appreciate, accept, and respect the cultural differences and similarities in the petri dish that's today's workplace.

Most importantly, leaders must approach organizational models, dilemmas and issues without any cultural biases but with an open and curious mind.

Doing this ensures they fully understand the different points of view and can help their organization resolve any issues that stem from these differences.

Importance of managing across cultures

Leaders of distributed teams must understand that how individuals approach issues and decision-making varies based on their cultural biases, experience and background under the same circumstances.

Awareness of the different approaches to problem-solving and decision-making ensures managers are more practical and empathetic in their role as people leaders. This is vital to the success of any business.

Benefits of managing across cultures

You reduce the chance of conflict among team members. Understanding and managing the different social norms minimizes the risk of misunderstanding, mistrust, and accidental disrespect. With this comes better communication among colleagues, increased trust, respect, and in the long run, workplace success.

Secondly, with better communication, increased respect, and trust, teams can work effectively together. This improves staff retention rates and overall productivity.

Finally, and most importantly, teams with a good dose of cultural awareness tend to be more competitive. The overall approach to culture within the organization also affects how employees handle customers. They are more empathetic and can respond more quickly to customer feedback. This results in increased sales and customer loyalty.

Challenges of managing across cultures

Cross-cultural management can be challenging. Top hurdles when leading a multicultural team:

Differing communication styles

Communication is a significant challenge of multicultural teams.

It could come in the form of language barriers, where certain team members can't speak the business's language. When this happens, the team members find it challenging to communicate their ideas or get their message across. In extreme cases, colleagues don't take them seriously due to their lower-level language skills.

In businesses where everyone speaks the same language—for example, English—but have different communication styles and varying colloquial words, phrases, or slang forms.

These issues can slow down day-to-day processes if not appropriately managed.

Differing work styles

Differences in work styles are probably the most significant challenge most people leaders face.

Culture often defines the work style of an individual. This affects their approach to decision-making and authority.

For example, the Japanese are more hierarchical than Americans. However, they tend to take decisions by the collective more than their fellow Americans.

Differences in motivational factors

Uniform incentive schemes or recognition programs across the business are great and easy to scale. However, that can be limiting, and in some cases, demotivating as it doesn't take into consideration the cultural differences that exist within the business.

For example, an individual might be motivated by an offer of increased pay; another might want more autonomy. In contrast, another might wish for programs that improve work-life balance or intangible benefits such as recognition for a job well done.

Poor management of a multicultural team's recognition and reward system can lead to a drop in productivity and staff attrition.

Differences in attitudes towards disclosure

Different cultures have different perspectives on disclosing emotions, the reasons behind a misunderstanding or conflict, or personal information. All these issues can affect team dynamics in various ways.

How to manage across cultures: 6 tips

The following are the most effective tips to manage across cultures successfully:

Encourage open communication

To successfully manage across cultures, every team member must have a chance to voice their opinions. This helps them feel heard and appreciated by both the management and other team members.

You can achieve this by creating an open line of communication. When planning a virtual team meeting, send the agenda to every team member and actively ask for their opinions. This way, they feel free to speak up during the meeting and will not feel dominated or under-appreciated.

Listen

To be a good leader, one must be a good listener. And this does not entail passive listening but actively listening to act.

Avoid making assumptions. Do not allow yourself to be enveloped in cultural biases of any kind, as this can destroy trust among team members. As a good leader, understand why team members from specific locations act the way they do.

Do not overlook anything, no matter how little it might seem. Listen to them, understand them, and develop strategies to help them work better with other team members.

Be flexible

Working with different people from different cultures requires flexibility. Rigid schedules might only lead to frustration for both team members and the management.

Understanding your team members' cultural motivations and priorities enables you to be flexible and accommodate every team member's differences.

Know each member of your team

Successfully leading a cross-cultural team requires you to take the time to get to know each team member. Make time to have individual calls with them and learn about their professional journey and personal story.

Armed with this knowledge, it will be easier to figure out individual strengths and skills. You will also be able to understand the personality of each team member and guide them better.

Set up cross-cultural awareness programs

Cross-cultural awareness programs are a great way to help team members learn how to interact with each other effectively. These programs can cover aspects such as etiquette, greetings, communication styles, etc.

Make it as an orientation program for management and team members. This helps remove any biases that cultural differences might cause. It also educates team members on the different cultural styles and strengths of other team members.

Promptly address conflict

When conflict arises, be sure to tackle it immediately. Carefully navigate the different cultural perspectives involved and find a middle ground. It is your job as a cross-cultural manager to be a cultural bridge that unites team members.

Training & Development

The overall aim of the development function is to provide adequately trained personnel in a company as well as to contribute to better performance and growth with their work. At the international level, human resource development function manages –

- Training and development for global employees
- Special training to prepare expatriates for international jobs
- Development of globally efficient managers

Creation and transfer of international human resource development programs may be carried out in two ways –

- In **centralized approach**, headquarters develop trainings and trainers travel to subsidiaries, often adapting to local situations. This fits mostly with the ethnocentric model. A geocentric approach is also centralized, but the training inputs come from both headquarters and subsidiaries staff.
- In **decentralized approach**, training is carried out on a local basis, which follows a polycentric model. In decentralized training, the cultural backgrounds of employees and corporate trainers are same. Training material and techniques are usually local and for use in their own area.

Expatriate Training

Expatriates when trained to prepare for work abroad are more successful. Lack of training can lead to expatriate failure. **Cross-cultural training (CCT)** is very important. It prepares to live and work in a different culture because coping with a brand new environment can be challenging.

Features of Training and Development in International Businesses

Training develops expatriate's learning orientation and helps them to understand the culture of overseas destinations.

Effective training can prevent and minimise the impact of others. Some of the biggest issues against expatriates are personal shortcomings in areas such as politeness, punctuality, tactfulness, orderliness, sensitivity, reliability, tolerance and empathy. Effective training programmes can

minimise these personal behavioural issues. These issues arise primarily due to differences in Culture.

Training can also improve the overall management style. Many host country nationals would like to see changes in some of the styles of expatriates, including their leadership styles, decision making, communication and group working.

Training and development is a subset of Organizational Development (OD), culture change and knowledge management.

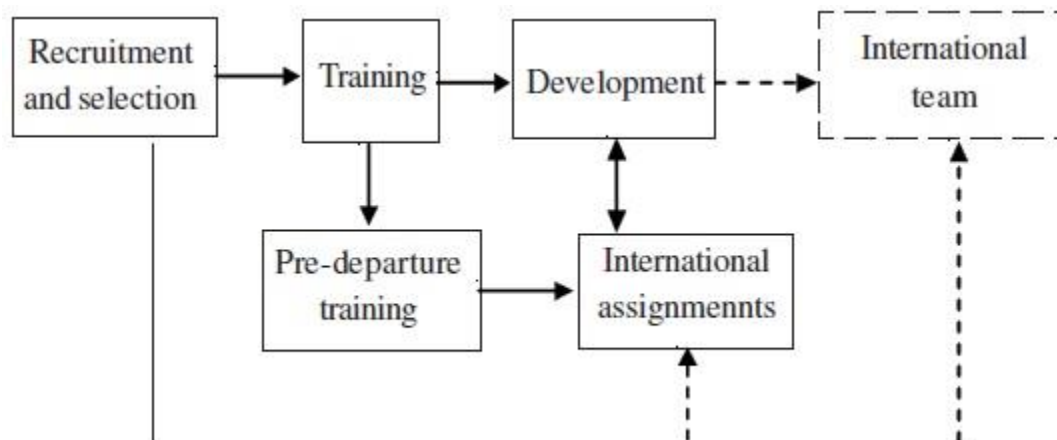
Candidates are also given pre-departure training which emphasises on cultural awareness and business customs of the country of posting to help cope with unexpected events in a new country. This pre-departure training helps in minimising culture shock and depression that usually sets in a new country and culture.

Three main issues that concern the training and development of the expatriates.

- The first one concerns the different training methods,
- Second the timing of training and
- Third issue concerns preparing the spouse and family when accompanying the expatriate during the international assignment.

Process of Training and Development in International Business

Following is the process of Training and Development in the Int'l business context.



Developing an International Mindset

Developing a global mindset and leading with cultural intelligence are two phrases that are used quite often by management teams, and that can be defined as making oneself understood where cultural differences are at play.

Training employees and giving them the tools needed to develop the global mindset needed to succeed prior to engaging in international endeavours is by far the most effective way to conduct international business and retain employees.

International managers need not only to recognise the cultural differences but also to manage them effectively. If the team is to succeed, they need to develop processes for coaching, mentoring and assessing performance across a variety of attitudes, beliefs and standards.

Here are a few components of a training regiment that highlights the basic needed modifications for international success:

1. Develop Relationship Skills
2. Learn the Language
3. Understand the Culture and the Market
4. Know the Simple Differences
5. Be prepared for the Marketplace
6. Find a Mentor or Trusted Partner
7. Have Patience

Develop Relationship Skills

Employees must master these soft skills to be excellent team players, communicators and problem solvers.

Learn the Language

Language Proficiency can play a role in refining relationship skills. One should seek opportunities to learn the language through specialised training programs or coursework that will help to adjust effectively in the host country.

Understand the Culture and the Market

From a cultural perspective, expatriates should learn what is held sacred and what is viewed negatively. Blending into the market as opposed to creating friction or embarrassment is necessary to help forge global partnerships.

Know the Simple Differences

It is also necessary to learn the basics of the market that one is working with. From time zones to measuring systems, these basics can prepare the expatriates for a smoother transition. Much of this research can be done on the internet through reliable sites before trip, call or email to show your knowledge of their practices.

Be prepared for the Marketplace

Understanding the essential elements of the international marketplace is fundamental knowledge required while working in the global domain. Having a high level of knowledge of international trade and monetary systems is part of the repository of knowledge essential to stay competitive.

Find a Mentor or Trusted Partner

Utilising the knowledge of someone with experience in the chosen market can be instrumental in helping one adjust and succeed.

Have Patience

The global market can offer unique obstacles one may not have been expecting, but the opportunity to shine on a larger scale should be valued. Time should be taken to work through challenges to appreciate the role one is in.

Expatriate Evaluation and Remuneration

There are three common aspects that determine the remuneration of expatriates.

In a **home-based policy**, employees' remuneration is according to their home countries.

The **host-based policy** sets salaries according to the norms of the host country.

Finally, region also effects in determining the remunerations.

Remuneration for foreign employees depends on their relocation – whether it is within their home region or in another region. With this approach, closer to home (within the region) jobs fetch lower remuneration than the away (outside the region) jobs.

International Compensation

International compensation can be defined as the provision of monetary and non-monetary rewards, including base salary, benefits, perquisites, long- and short-term incentives, valued by employees in accordance with their relative contributions to MNC performance

Compensation is a key economic issue, which continues to assume an increasingly large share of its operating expenses. HR executives in global firms spend a great deal of time and make a lot of effort in designing and managing compensation programmes, because of their high cost and impact on corporate performance, employees commitment and also their retention.

Objectives of International Compensation

- Attract employees who are qualified, experienced and interested in international assignments
- Facilitate the movement of expatriate's from one subsidiary to another, from home to subsidiary, and back from subsidiary to home
- Provide a consistent and reasonable relationship between the pay levels of employees at headquarters, domestic affiliates and foreign subsidiaries
- Be cost effective by reducing unnecessary expenses
- Should be easily understood and easy to administer

Elements of International Compensation

There are many complexities in the international compensation programme as all the objectives are difficult to meet and require a high degree of expertise. The main elements are discussed as follows:

- | | |
|----------------------------------|----------------------|
| • Base pay | • Benefits |
| • Incentives | • Taxes |
| • Retention and Referral Bonuses | • Long-term Benefits |
| • Allowances | |

Base pay

Base pay is the primary component of a package of allowances and may be paid in-home or local-country currency. The base salary is the foundation block for international compensation whether the employee is a Parent Country or from any other country.

It is the main element in the compensation structure that decides the status, rank or grade. This is the basic element upon which all the other components are built and retirement benefits calculated both in domestic and international compensations.

Incentives

Incentives are used to motivate employees for higher performance and to undertake foreign assignments. Latest trend in total compensation package has seen a rise in monetary benefits.

Retention and Referral Bonuses

Almost every organisation faces the issue of turnover of employees at some point or the other. Referral bonus is paid to employees who bring qualified new employees who meet the selection criterion.

This reduces recruitment cost and time of the organisation and hence referral bonus is paid. There are many factors leading to retention of employees apart from money such as quality of work-life, flexibility at work timings, challenging assignments, transport and other benefits and rise in career graph.

Allowances

- **Foreign service premiums:** most common for employees on long-term assignments (over one year). More often paid to parent country nationals (PCNs) than to third country nationals (TCNs).
- **Hardship:** in consideration of isolation, crime, natural hazards, political violence, based on government data upon which rates can be provided by consulting organizations such as International SOS, a global medical and security assistance company.
- **Relocation:** compensation for costs such as transport, storage, temporary accommodation, purchases of appliances and vehicles, associated with moving to the host country.
- **Education:** for assignees' children. This may involve compensation for language classes, books, and school fees. Home country boarding school fees may also be involved for assignees who opt not to take their children to isolated and or politically violent locations.
- **Home leave:** provision for the assignee and family to return home periodically during the length of the assignment. (Dowling et al., 1999; Stanley, 2001)

Benefits

These are also known to be indirect compensation and their purpose is to minimise the payments and enhance quality of life. Benefits could include use of health clubs, medical treatment to family, upkeep of house, servants etc.

Taxes

These take a substantial part of the salary to governments of both host and home countries. Hence, MNCs follow tax equalisation policy, according to which the expatriates pay only the taxes required to be paid in the home country and what is required to be paid to the host country

is paid by the country. Expatriates are required to obtain tax clearance certificate from the host country before they are allowed to leave the country.

Long-term Benefits

- **Employee Stock Option Plan (ESOP)**- a certain nos. of shares are reserved for purchase and issuance to key employees
- **Restricted Stock Unit (RSU)** –Units of stocks are provided with restrictions on when they can be exercised. It is usually issued as partial compensation for employees
- **Employee Stock Purchase Plan (ESPP)** –Company sells shares to its employees at a discount. Company deducts the purchase price of these shares every month from the employee's salary

Approaches to International Compensation

There are two main approaches of international compensation, such as follows:

1. Going Rate Approach
2. Balance-Sheet Approach

Going Rate Approach

The key characteristics of this approach are summarised:

- Based on local market trends and rates
- Relies on survey comparisons
 - Local nationals (HCNs)
 - Expatriates of same nationality
 - Expatriates of all nationalities
- Compensation based on the selected survey
- Base pay and benefits may be supplemented by additional payments for low-pay countries

In this approach, the base salary for international transfer is linked to the salary structure in the host country. The multinational usually obtain information from local compensation surveys and must decide whether local nationals (HCNs), expatriates of the same nationality or expatriates of all nationalities will be reference points in terms of benchmarking.

For example, an Indian bank operating in London would need to decide whether its reference point would be local U.K. salaries, other Indian competitors in London, or all foreign banks operating in London. With the Going Rate Approach, if the location is in a low-pay country, the multinational usually supplement base pay with additional benefits and payments.

Balance-Sheet Approach

Many multinational companies commonly apply the balance-sheet method for determining expatriate compensation. The balance-sheet method provides a compensation package that attempts to equate or balance an expatriate's purchasing power in his or her home country.

To balance the compensation received for the international assignment with compensation received in the home country, multinational companies usually provide an additional salary. This

increased salary includes adjustments for differences in taxes, housing cost, and the cost of basic goods and services.

Goods and services include items such as food, recreation, personal care, clothing, education, home furnishing, transportation, and Medicare (Dowling and Schuler, 1990).

There are four Balance Sheet approach categories:

- Goods and services –home-country outlays for items such as food, personal care, clothing, household furnishings, recreation, transportation and medical care.
- Housing –the major costs associated with housing in the host country.
- Income taxes –parent-country and host-country income taxes.
- Reserve –contributions to savings, payments for benefits, pension contributions, investments, education expenses, social security taxes, etc.

Besides matching the expatriate's purchasing power, companies often provide other allowances and perquisites to the expatriate manager. These cover the initial logistics of the international move (such as hotel costs while settling in), provide compensation for lifestyle differences between the home and host country, and provide incentives to take the assignment.

Some of these additional allowances and perquisites include the following :

- Foreign Service Premiums: Multinational compensations often provide 10 percent to 20 percent of base pay for accepting the individual and family difficulties associated with an overseas assignment.
- Hardship Allowance: This is extra money paid for particularly difficult posting due to issues such as high risk or poor living conditions.
- Relocation allowance: Along with the basic costs of moving a family to an international assignment, many companies pay a flat sum equal to one month's salary at the beginning and end of the assignment to cover miscellaneous costs of relocating.
- Home-Leave Allowances: These provide transportation costs for expatriates and their families to return to their parent country once or twice a year.

Performance Evaluation

In companies, performance evaluation is most frequently carried out for administration or development purpose.

For administration purposes, performance evaluation is done when the decisions on work conditions of employees, promotions, rewards and/or layoffs are in question. Development intention is oriented to the betterment of work performance of employees, as well as to the enhancement of their abilities. It is also a way for advising employees regarding corporate behavior.

Performance evaluation can be quite challenging, especially when it carried out at an international level. The international organization must evaluate the employees from different countries. Consistency across subsidiaries for performance comparisons with contrasting cultural background makes the evaluation meaningful. As with other functions, the approach to

performance evaluation depends on the organization's overall human resource management strategy.

Management of Expatriates

Expatriates management is one of the most important issues in international business. The most important issues related to Management of Expatriates are the following –

The Reasons for Expatriate Failure

In international companies, the high failure rate of expatriates can be contributed to six factors – career blockage, culture shock, lack of cross-cultural training, an overemphasis on technical qualifications, using international assignments to get rid of problematic employees, and family problems.

Cross-Cultural Adjustment

Expatriates and their families need time to become familiar with their new environment. The **culture shock** occurs when after some time, the expatriates find new job conditions unattractive. It usually takes three to six months after arrival, to get out of the culture shock.

Expatriate Re-Entry

After the expatriate completes his assignment and returns home, the work, people, and general environment becomes unfamiliar. The expatriate is generally unprepared to deal with **reverse culture shock**.

Disadvantages of International Business

Although globalization has brought with it a lot of benefits, it can sometimes have adverse effects as well. In this chapter, we will discuss how a country gets adversely affected by allowing multinationals to flourish.

Adverse Effects on Economy

When two countries get engaged in an international business, one country's economic condition affects the economy of the other country. Large-scale exports also hamper and discourage the developments in industrialization of the importing country. Therefore, the economy of the importing country may feel the heat.

Unequal Competition

Due to internationalization, all countries come to a single platform of business. As developing countries cannot compete with the developed ones, the growth and development of the developing nations get affected. If the developing countries do not regulate international business, it may be detrimental for their economies.

Rivalry among Nations

Globalization has increased the level of competition among countries. Due to intense competition and eagerness to get an upper-hand in exporting more commodities, sometimes the nations may come across unhealthy business circumstances. It may lead to rivalry among nations, diminishing international peace and harmony.

Colonization

Heavy exporters often undermine the issues of the importing nation. If the importing country depends too much on the imported products, it may turn into a colony. Overt economic and political dependence on the exporting nation coupled with industrial backwardness may harm the importing nation.

Exploitation

Developed countries, due to their economic prowess, may try to exploit the developing and third-world countries for their business motives. As the prosperous and dominant nations usually tend to regulate the economy of poor nations, international business may lead to exploitation of developing countries by the developed countries.

Legal Problems

International businesses may also create various legal problems. It is a fact that there are many legal aspects of international business. The international business organizations may sometimes neglect these laws and indulge in illegal activities. Varied legal regulations and customs formalities are followed by different countries. This affects export and import and general trade. Legal problems are common in many nations.

Negative Publicity

There are many cultural effects of internationalization. A multinational company may not be vigilant enough to pay attention to host country's cultural norms. As cultural values and heritages differ among countries, there are many aspects of international organizations, which may not be suitable for the host country. The atmosphere, culture, tradition, etc., get affected due to this.

Dumping Policy

Dumping is a real danger. As the industrially mature economies can produce and sell the products in cheaper rate than the home country, the products may be dumped in the less developed nations. This creates an unfair competition in the local markets. People often go for the cheaper priced items, being unaware that their own country and the industries may get destroyed due to this type of dumping policies.

Shortage of Goods in the Exporting Country

As exporting brings enough profit, sometimes, traders may prefer to sell their products in a foreign country. The exporters may sell the good quality products in foreign nations even when there is a demand in the local markets. This often results in shortage of quality goods within the home country.

Adverse Effects on Domestic Industry

International business poses a threat to the survival of small-scale industries. As the big companies have enough muscle power, they do not let the start-ups compete and add value. Due to such kind of unfair foreign competition and unrestricted imports, the start-ups in the home country find it difficult to survive.