

INTERNATIONAL HUMAN RESOURCE MANAGEMENT



The Environment of International Human Resource Management

“शिक्षा मानव को बन्धनों से मुक्त करती है और आज के युग में तो यह लोकतंत्र की भावना का आधार भी है। जन्म तथा अन्य कारणों से उत्पन्न जाति एवं वर्गगत विषमताओं को दूर करते हुए मनुष्य को इन सबसे ऊपर उठाती है।”

— इन्दिरा गांधी



“Education is a liberating force, and in our age it is also a democratising force, cutting across the barriers of caste and class, smoothing out inequalities imposed by birth and other circumstances.”

— Indira Gandhi

Block

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MS 29 INTERNATIONAL HUMAN RESOURCE MANAGEMENT

International Human Resource Management (IHRM) is an important concept in the present day context as more multinationals are growing and the scenario of work has become more global in nature. There is tremendous growth in mergers and acquisitions of companies. In order to effectively manage their human resources, staffing, training, development and retaining people have become very important.

Therefore, this course given you a detail understanding about different aspects and practices of IHRM. With the help of this course the learners will be in a position to widen their understanding about Human Resource Management from International context.



BLOCK 1 THE ENVIRONMENT OF INTERNATIONAL HUMAN RESOURCE MANAGEMENT

This block comprises of four units.

- The first unit gives an overview of international human resource management and what differentiates it from domestic human resource management.
- The second unit presents organisational context of international HRM, including the impact of international growth on the firm's structure and internal control processes.
- The third unit discusses the meaning of culture and values, cultural diversity and sensitivity, and Hofstede's framework of cultural differences.
- The last unit examines the international strategic management process covering multinational corporations' business strategies, as well as human resource strategies.



UNIT 1 INTERNATIONAL HUMAN RESOURCE MANAGEMENT (IHRM) - AN OVERVIEW

Objectives

After going through this unit, you should be able to:

- Explain the term IHRM and its functions.
- Differentiate between domestic HRM and IHRM.
- Describe the global work environment and the enduring context in which IHRM functions.

Structure

- 1.1 Introduction
- 1.2 Globalisation of Business
- 1.3 Meaning of IHRM
- 1.4 IHRM Functions
- 1.5 IHRM Manager
- 1.6 HRM in Multinational Enterprises
- 1.7 Domestic vs. International HRM
- 1.8 Variables that Moderate Differences between Domestic and International HRM
- 1.9 Enduring Context of IHRM
- 1.10 Summary
- 1.11 Key Terms
- 1.12 Self-Assessment Questions
- 1.13 References
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1.1 INTRODUCTION

Any business is done in environments of different textures – social, cultural, economic, political, and technical. International business is not an exception to this impingement of environment. The context in which international human resource management has to function, therefore, is decided by these environment flows. IHRM creates an anxiety to know what is it; how does it differ from HRM; is it synonymous to cross-cultural management; and so on. IHRM professionals have their hands full with the different types of influences they are supposed to face while carrying out their responsibilities. Further, any type of international problem, in the final analysis, is either created by people or must be solved by people. Hence, having the right people in the right place at the right time emerges as the key to a company's international growth. Hence, in this unit, an attempt has been made to trace the conceptual framework of IHRM.

1.2 GLOBALISATION OF BUSINESS

Globalisation is the shift towards a more integrated and interdependent world economy. Globalisation has four components viz., the globalisation of markets, globalisation of production, globalisation of investment, and globalisation of technology. Globalisation is the trend toward a more integrated global economic system. Global companies plan or venture not only on national markets, but also venture globally and view themselves as a global company.

Globalisation of business enterprises has accelerated as opportunities have developed across the world. As our companies expand globally, the human resource management challenges are great. Managing people in a global environment typically focuses on helping employees to understand and effectively handle cultural requirements by building sensitivity to languages, national customs, legal and regulatory environments, and other country and regional differences.

Rapid globalisation requires organisational flexibility. Flexibility is more important because global companies increasingly work with partners around the world. Coping with international competition requires flexibility that traditional organisations often do not possess. Flexible organisations require flexible people. Managers need to understand the characteristics of flexible organisations, and determine the organisational design and capabilities required to achieve business objectives. Fortunately, the revolution in information technology permits many organisations to develop the needed flexibility.

Global companies target investments according to the unique merits and requirements of each regional/local market and operation. Although successful globalisation strategies are not easy to implement, many organisations have effectively moved outside their domestic markets. For example, Ford, Merck & Co., IBM, Hewlett-Packard have strong profitable operations in Europe. McDonald's, Walt Disney, DuPont have successful Asian operations. Global companies adapt to the market requirements of multiple countries and cultures. However, they also challenge conventional wisdom, influence thinking, and initiate changes in business practices in different settings.

Technology, specially computer-based information technologies, continue to revolutionise how (1) tasks are performed; (2) organisations are structured; (3) customers are served; (4) human resources are led and managed; (5) planning and control systems operate; (6) employees communicate and network with one another and external stakeholders, such as customers, suppliers, competitors, and government agencies; (7) individuals and organisations learn to innovate and adapt; and (8) many other tasks are performed.

Technological change may have positive effects, including higher quality products and services at lower costs. But it may also have negative effects, including erosion of personal privacy, computer-related stress, and health problems.

Next stage in the evolution of business organisations is the creation of cybercorps. Internet and intranets are monitored by cybercorps. The internet is a worldwide collection of interconnected computer networks through an array of computer-based information technologies; the internet directly links the organisation and its employees to customers, suppliers, information sources, the public, and millions of individuals.

1.3 MEANING OF IHRM

P. Morgan¹ 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).

According to Paul Sparrow,² “global management of human resource (in other words IHRM) is a position of the skills and knowledge of formulating and implementing policies and practices that effectively integrate and cohere globally dispersed employees, while at the same time recognizing and appreciating local differences that impact the effective utilization of human resources”.

IHRM is about the worldwide management of human resources. The purpose of IHRM is to enable the firm, the multinational enterprise (MNE), to be successful globally. This entails on its part to be: (a) competitive throughout the world; (b) efficient; (c) locally responsive; (d) flexible and adaptable within the shortest of time periods; and (e) capable of transferring learning across their globally dispersed units.

International HRM is performing HRM activities by a domestic organisation that employs foreigners along with nationals and by international/global/multinational/transnational organisations. Broadly defined, international human resource management (IHRM) is the process of procuring, allocating, and effectively utilising human resources in a multinational corporation.

Among the various activities of HRM, the following are the most common ones.

- (a) Human resource planning
- (b) Staffing (recruitment, selection, and placement)
- (c) Performance management
- (d) Career management
- (e) Training and development
- (f) Compensation and benefits
- (g) Health and safety
- (h) Labour relations

IHRM deals with all the above 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.

1.4 IHRM FUNCTIONS

The significant IHRM functions include:

Planning: Human resource planning is pivotal to the successful operation of a MNC. Planning in MNCs is essential for the efficient use of human resources. However, the implementation of HR planning procedures may be more difficult in some subsidiaries than in others. Such planning must be comprehensive in scope and responsive to the MNC's characteristics.

Hiring: Hiring and placing people in positions where they can perform effectively is a goal of most organisations, whether domestic or international. Technical competence is necessary but not sufficient condition for successful performance of international management positions.

A subsidiary HR manager ought to use a hiring process that fits the local labour market. For example, an MNC may need the services of a local personnel selection agency to identify the sources of skilled employees. The development of a selection system may be complicated by the fact that selection tests used in the home country

of the MNC may be culturally biased and inappropriate elsewhere. Also there can be unexpected disadvantages associated with hiring particular types of local employees. For example, in Japan, it may be inappropriate to hire a younger person for a job that has supervisory responsibilities over older employees.

One of the major problems associated with hiring in less developed countries is that the skill level of individuals may be less than desired. In such circumstances, it is important to invest considerable time and effort in the selection process and to provide increased training to local employees when they take up the job. In such a case, appropriate training materials have to be prepared and training methodology to be followed across cultures.

Staffing: Staffing is a major IHRM practice that MNEs have used to help coordinate and control their far-flung global operations. MNE's remain concerned about the best way to identify and select expatriates. On the way to developing a global workforce and cadre of global managers, MNEs need to open their recruitment process and enhance the attractiveness of global assignments.

Appraising performance: Culture helps to determine what aspects of performance should be appraised and how that appraisal should be conducted. Individual performance assessment is common in the U.S., a very individualistic society. By contrast, in Japan or China, group performance is critical, and singling out individuals for praise or criticism is highly threatening. Apart from this, there is considerable variation as to system of performance assessment across countries.

The development of performance appraisal systems for use with expatriates requires extreme care. The active involvement of the expatriate, home country supervisors, and host country supervisor is often important.

While the expatriate is on assignment, the individual performance must be appraised. For the expatriate, in contrast to domestic, MNEs need to evaluate dimension of performance not specifically job related, such as cross-cultural interpersonal qualities, sensitivity to foreign norms, laws and customs, and adaptability to uncertain and unpredictable conditions. Units within a large MNE may pursue different strategic missions, face different legal conditions, and encounter far different competitive situations. Consequently, MNEs must account for these environmental conditions when constructing appraisal formats.

An effective performance management system also has to deal with the challenges of comparing subsidiary managers in different countries. For example, it is difficult to compare the performance of an Indian subsidiary manager with that of a Russian manager because each manager works under quite different environmental conditions. It is equally challenging to evaluate the performance of the various subsidiary employees.

Compensation and benefits: The key components of international compensation include base salary, foreign service inducement/hardship programme, allowances, and benefits. As a starting point, multinational firms need to match their compensation policies with their staffing policies and general HR philosophy. Compensation policies within each subsidiary must be consistent with the local market, wage legislation and regulations, union influences, and cultural preferences. At the same time, the subsidiary's compensation system must provide an adequate level of strategic consistency within the MNC's overall business strategy. Besides dealing with a pay system developed for a host country's employees, the subsidiary HR manager must deal with a separate system applicable to home country expatriates and third country nationals working for the subsidiary.

While developing international compensation policies, a firm seeks to satisfy several objectives. First, the policy should be consistent with the overall strategy, structure,

and business needs of the multinational. Second, the policy must work to attract and retain staff in the areas where the multinational has the greatest needs and opportunities. Third, the policy should facilitate the transfer of international employees in the most cost-effective manner for the firm. Fourth, the policy must give due consideration to equity and sound implementation.

Most expatriate compensation plans are designed to achieve four major objectives:

(1) attract employees who are qualified and interested in international assignments; (2) facilitate the movement of expatriates from one subsidiary to another, from home to subsidiaries, and from subsidiaries back home; (3) provide a consistent and reasonable relationship between the pay levels of employees at headquarters, domestic affiliates, and foreign subsidiaries; and (4) ensure cost effectiveness by reducing unnecessary expenses.

There are a variety of factors that affect compensation systems within MNCs. MNC compensation systems are influenced by internal business factors such as varying wage costs, levels of job security, and differing business strategies.

As with performance appraisal systems, cultural preferences may influence the type of compensation system that is appropriate. If we relate specific cultural dimensions to pay systems, in high power distance cultures, compensation systems should reflect hierarchical divisions within the firm. In contrast, compensation systems in low power distance cultures should be more egalitarian, with relatively minor differences between the top and bottom earners. In individualistic cultures, compensation systems should reward individual achievement, and in collective cultures, pay should be group based or seniority based.

Some of the key issues in compensating the expatriate are:

- How can MNEs develop pay structures that are cost-effective, fair, and adaptable to different employee groups?
- How can MNEs develop more culturally sensitive compensation schemes that recognise country differences, yet are equally motivating and still equitable?
- How can international-assignee compensation be better linked to the strategy and industry characteristics of a given MNE?

Training: To maximise training efficiency, the international HR manager should select and develop training programmes that best fit the particular assignment and individual. Four aspects are to be considered in selecting the type of training programme needed: (1) business strategy, (2) job requirements, (3) cultural similarities and dissimilarities, and (4) communication with local nationals. The difficulty and degree of communication with local nationals must also be considered in deciding the necessary level of cross-cultural training.

Labour relations: In international labour relations, it is important to realise that it is difficult to compare industrial relations systems and behaviour across national boundaries. A labour relations concept may change considerably when translated from one industrial relations context to another. The concept of collective bargaining, for example, in the United States is understood to mean negotiations between a labour union and local management; in Sweden and Germany the term refers to negotiations between an employers' organisation and a trade union at the industry level. Cross-national differences also emerge as to the objectives of the collective bargaining process and the enforceability of collective agreements. Many European unions view the collective bargaining process as an ongoing class struggle between labour and capital, whereas in the U.S. union leaders tend toward a pragmatic economic view of collective bargaining rather than an ideological view. The trade union structure also varies from one country to that of another. Hence the multinationals advocate for flexible industrial relations policies to adapt to local requirements.

1.5 IHRM MANAGER

When compared with domestic human resource management, IHRM requires a much broader perspective on even the most common HR activities. This is particularly so for HR managers operating from the multinational corporation's headquarters location. The number and variety of IHRM activities are daunting. International HR manager must deal with issues as varied as international taxation; international relocation and orientation; various other administrative services for expatriates; selecting, training, and appraising local and international employees; and managing host-government relations in a number of countries around the world. Even when dealing with one particular HR functional area such as compensation, the international HR manager is faced with a great variety of national and international pay issues. He must coordinate pay systems in different countries with different currencies that may change in relative value to one another overtime.

Human resource managers in MNCs 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 types of HR policies and practices that are most effective in different business and cultural settings.

The role of a subsidiary HR manager is to develop HR practices that are: (a) acceptable within the local culture; and (b) acceptable to management at the MNC's headquarters. The balancing of these two requirements is a difficult task. The procedures and policies developed must be consistent with the host country's legal requirements and cultural traditions.

Cross-cultural interpersonal skills, sensitivity to foreign norms and values, and ease of adaptation to unfamiliar environments are just a few of the managerial characteristics when selecting international managers.

Box 1

Characteristics of International/Global HR Manager

- Strategic awareness
- Aaptability to new situations
- Sensitivity to different cultures
- Ability to work in international teams
- Ability to manage change and transition
- Open-minded and flexible in thought and tactics
- Resilient, resourceful, optimistic, and energetic
- Honesty and integrity
- Ability to learn and transfer knowledge
- Cross-cultural communication skills
- International negotiating skills
- Open and non-judgemental personality
- Awareness of cultural background
- Intellectual ability
- Self-esteem
- Relationship building skills
- Managerial skills
- High task and result orientation
- Language skills
- Understanding international marketing

1.6 HRM IN MULTINATIONAL ENTERPRISES

A multinational corporation is defined as an enterprise that has an interlocking network of subsidiaries in several countries.

Human resource departments in most MNCs administer the following human resource functions keeping in view their own social, cultural, legal, economic, political, and historical characteristics:

- Human resource planning
- Staffing
- Performance evaluation
- Training and development
- Compensation and benefits
- Health and safety
- Labour relations

The growing importance of MNEs and the use of complex global business decisions have generated a linkage of IHRM with the strategic needs of the business and developed a strategic perspective of IHRM.

IHRM policies and practices relevant to the needs of MNEs include those related to planning, staffing, appraising, compensating, training and developing, and labour relations. To illustrate, an MNE might have an HR policy that indicates that performance will be rewarded. Given that this is a rather general statement, each MNE unit could be free to develop specific practices that are simultaneously consistent with local conditions and the general policy.

One of IHRM task relates to selection and repatriation of international assignees as well as how to compensate these employees. It can also hire a staff of individuals to focus on managerial training and development, largely to develop a global management cadre. Accordingly, the resources devoted to and the location of IHRM operations can be expected to vary considerably across MNEs.

The question for the multinational firm is how to maintain and leverage its human resources so that suitably trained, internationally oriented personnel are available to support its strategic responses and contribute to its core competencies.

For multinational firms, successful management of compensation and benefits requires knowledge of the employment and taxation laws, customs, environment, and employment practices of many foreign countries. Also needed are familiarity with currency fluctuations and the effect of inflation on compensation, and an understanding of why and when special allowances must be granted, and which allowances are necessary in what countries. All of these needs must be fulfilled within the context of shifting political, economic, and social conditions. Because of their high cost, HR managers spend a great deal of time developing effective compensation and benefit programmes for international employees.

1.7 DOMESTIC VS. INTERNATIONAL HRM

In broad terms, international HRM involves the same activities as domestic HRM. However, domestic HRM is involved with employees within one national boundary only. HR managers working in a domestic environment generally administer programmes for a single national group of employees who are covered by a uniform compensation policy. HR managers working in an international environment face the problem of designing and administering programmes for more than one national group

of employees. They need to take broader view of issues. The HR department must ensure that the expatriate employee understands housing arrangements, health care, and all aspects of the compensation package and benefits provided for the assignment.

Major external factors that influence international HRM are the type of government, the state of the economy, and the generally accepted practices of doing business in each of the various host countries in which the multinational operates. As the international business involves considerable interaction and movement of people across national boundaries, an appreciation of cultural differences is important and essential.

Complexities

As indicated earlier by Morgan, the main characteristics of IHRM lie in the complexities of operating in different countries with different categories of employees. Though on the face of it HRM activities remain the same both in the domestic and international arenas, there are varying degrees of intensity with which the complexities arising out of IHRM activities have to be addressed. P.J. Dowling³ (1988) attributes these complexities to: (i) more HR activities; (ii) the need for broader perspective; (iii) more involvement in employees' personal lives; (iv) change in emphasis as the workforce mix of PCNs and TCNs varies; (v) risk exposure; and (vi) broader external influences.

1. More HR Activities: In order to operate in an international environment, the HR department must involve itself in a number of activities that would not be necessary in a domestic environment such as, international taxation, international relocation and orientation, administrative services for expatriates, host-government relations, and language translation services.

International taxation: Among the various laws one has to abide by in a foreign country to continue the company's operation there, income tax laws are those that cannot obviously be evaded or avoided. At the same time, the expatriate cannot afford to do away with taxation in his country of origin. Sometimes this may lead to double taxation. This is a disincentive for anyone to take up a foreign assignment. Therefore, IHRM has to take care of compensating the individual adequately so that he does not feel the pinch of double taxation. This may give rise to anomaly in the salary structure of employees in the home country. A tax equalisation policy has to be designed by the IHRM personnel.

International relocation and orientation: Whenever a transfer of an employee takes place within the country the HR professional is not burdened with the additional responsibility of arranging the employee's passage from one location to another. His job simply is to provide transfer expenses to the employee as per rules and regulations of the company. But in the case of an expatriate, the job of arranging passports, visas, tickets, immigration and travel details, accommodation, recreation, and schooling information falls on the IHRM professional; not only for the concerned expatriate, but also for his/her spouse and family. Finalising compensation details such as delivery of salary overseas, determination of various overseas allowances are the extra responsibilities added on to IHRM. Further, the training of the expatriate to prepare him to cope with the new environment and culture is an added activity. For domestic HRM personnel this is not an issue because the cultural impact of workers/employees will be homogenous. Once the expatriate reaches foreign soil, the orientation that has to be given is certainly different from what it is at home.

Administrative services for expatriates: A multinational firm needs to provide administrative services for expatriates in the host countries in which it operates. Providing administrative services can often be a time-consuming and complex activity

because policies and procedures are not always clear-cut and may conflict with local conditions. For example, if in the host country (which is not secular) there is a requirement that a place of worship has to be provided for the employees, and in the parent country (which is a secular state) there is no such provision. HRM has to address this dichotomy administratively to suit local dictats. These issues add to the complexities of providing administrative services to expatriates.

Host-government relations: This aspect is an important activity for an HR department, particularly in developing countries where work permits and other important certificates often are obtained more easily when a personnel relationship exists between the relevant government officials and multinational managers. Maintaining such relationships helps resolve potential problems that can be caused by ambiguous eligibility and/or compliance criteria for documentation such as work permits but this can at times become quite volatile.

Provision of language translation services: This service for internal and external correspondence is an additional international activity for the HR department. Morgan notes that if the HR department is the major user of language translation services, the role of this translation is often expanded to provide translation services to all foreign operation departments within the multinational.

2. The Need for Broader Perspective: HR managers working in an international environment have to deal with more than one national group of employees (e.g., PCN, HCN and TCN). Therefore, narrow domestic walls have to be removed and parochialism, regionalism or even nationalism cannot, or should not, find its way into the operation and administration of programmes for the multinationals. For designing and administering programmes for more than one national group of employees, the HR managers need to take a broader view of issues. For example, a broader, more international perspective on expatriate benefits would endorse the view that all expatriate employees, regardless of nationality, should receive a foreign service or expatriate premium when working in a foreign location. Even in domestic HRM partialities due to regionalism should be shunned. All the more so, IHRM should be bereft of this attitude and embrace a broader perspective for the employees.

3. More Involvement in Employees' Personal Lives: In the domestic environment, the HR department's involvement with an employee's family is limited. But in the international environment the department should be sufficiently involved in order to provide the level of support required and to know more about the employee's personal life. For example, despite the best effort of a company to avoid any discriminatory selection process, a married person may be rejected just to escape some of the stringent legislations in the matter of immigration into the country of posting. Even if the employee has to be sent single to the host country, the family's requirements in the absence of the employee need to be taken care of by the HR department. These can range from housing, education of children, health benefits, and so on. Sometimes the HR department has to take care of the children left behind in boarding schools when both husband and wife stay together in the host country on an assignment from parent country. For a domestic assignment, most of these matters either would not arise or would be primarily the employee's responsibility rather than that of the HR department.

4. Change in Emphasis as the Workforce Mix of PCNs and TCNs Varies: As foreign operations mature, the emphasis put on various human resource activities change. For example, as the need for PCNs and TCNs declines and more trained locals become available, resources previously allocated to areas such as expatriate taxation, relocation, and orientation are transferred to activities such as local staff selection, training, and management development. The latter activity may require establishment of a programme to bring high-potential local staff to corporate

headquarters for development assignments. The need to change emphasis in HR operations as a foreign subsidiary matures is clearly a factor that broadens the responsibilities of local HR activities.

5. Risk Exposure: Frequently, the human and financial consequences of failure in the international arena are more severe than in the domestic business. For example, expatriate failure (the premature return of an expatriate from an international assignment) is a potentially high-cost problem for international companies. Direct costs (salary, training costs, and travel and relocation expenses) per failure to the parent firm may be as high as three times the domestic salary plus relocation expenses, depending on currency exchange rates and location of assignments. Indirect costs such as loss of market share and damage to international customer relationships may be considerable.

Risk exposure is high in domestic HRM. Depending on the countries where the MNC operates, the headquarters and subsidiary HR managers may also have to worry about the physical safety of the employees. In many countries, kidnapping and terrorism are common and international HR managers must learn to live with them. In the recent past, Taliban activities in Afghanistan took an Indian engineer hostage and killed him to press their demand that all Indians should leave their country within twenty four hours. Terrorism poses a great risk to international operations.

6. Broader External Influences: Major external factors that influence international HRM are the type of government, the state of the economy, and the generally accepted practices of doing business in each of the various host countries in which the multinational operates. Countries like the U.S. and U.K. are nowadays careful about outsourcing their activities for the fear that personnel from countries like India or China will displace their own workforce and create unemployment. Also, they are imposing various restrictions on foreign nationals in their own countries. The legal framework of the host countries are another parameter within which HR managers need to operate. The subsidiary HR manager must spend more time learning and interpreting the local ways of doing business and the general code of conduct regarding activities such as giving gifts. It is also likely that the subsidiary HR manager will become more involved in administering benefits either provided or financed by the multinational such as housing, education, and other facilities not readily available in the local economy.

Differences

International HRM differs from domestic HRM in five major dimensions:

1. **Wider nationalities:** IHRM deals with the employees drawn from a number of nationals in contrast to domestic HRM, where employees are drawn from one nation. People from different nations come with a variety of cultures, values, ethical interpretations, religious beliefs, and the like. Behaviour of people does also vary based on geographical regions.
2. **Broader relations and complexities:** Organisations 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. Organisations arrange for work permit for employee. Visas and resident permits and so on, for employees and their family members. In addition, organisation also arranges for socialisation of employee and family members with the local community, and also various welfare amenities for them. 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.

3. **Influence of international environment:** International environment has become complex, highly competitive, dynamic, vibrant and interdependent. The emergence of World Trade Organisation, 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. 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.
4. **Enduring complexities of IHRM activities:** 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 exclusively with nationals.
5. **Variety of functions and approaches:** International human resource managers perform certain additional function as compared to domestic human resource managers. Domestic HR managers in purely domestic companies perform usual HR functions unlike international HR managers who normally carry out certain additional functions with different approaches and magnitude. The international HR manager has to follow different approaches for different nationals unlike the domestic HR manager, who normally follow an uniform approach as the employees belong to one nation.

1.8 VARIABLES THAT MODERATE DIFFERENCES BETWEEN DOMESTIC AND INTERNATIONAL HRM

Apart from the complexities involved in IHRM more than in domestic HRM, P.J. Dowling⁴ enumerates four other variables that contribute to the differences between domestic and international HRM. These variables are: (1) the cultural environment; (2) the industry/industries with which the multinational is primarily involved; (3) the extent of reliance of the multinational on its home country domestic market; and (4) the attitude of senior management. These four additional variables are discussed below:

1. The Cultural Environment: The word 'culture' many a time is confused with nation but it should not be assumed that national differences necessarily represent cultural differences. Culture normally describes a shaping process; that is, members of a group or society share a distinct way of life with common values, attitudes, and behaviours.

Any one travelling abroad, either as a tourist or business person, experiences situations that demonstrate cultural differences in language, food, dress, hygiene, and attitude to time. They experience culture shock - a phenomenon experienced by people who move across cultures. Normally there is a tendency to believe that what has worked successfully for so long in one culture should work in another environment also. This is what researchers call an '*etic*' approach to culture. According to them, the '*emic*' approach, on the contrary, is culture specific. This means there is no universality of culture. Each culture is unique in nature and the employee should adapt himself/herself to the new culture rather try to change it to suit oneself. This is where guidelines for structuring teamwork can be linked to the strategic imperatives of local responsiveness, global efficiency and organisational learning⁵.

Being aware of the local culture and adapting oneself to it enables one to cope with the requirements of the local market with much better responsiveness than a person who thinks what is done back home is the best way of doing it. This naturally leads to global efficiency and organizational learning.

2. Industry Type: Porter⁶ suggests that the industry or industries (if the firm is a conglomerate) in which a multinational firm is involved is of considerable importance because patterns of international competition vary widely from one industry to another.

Depending on the industry, global competition varies and accordingly HRM activities also vary. What is most talked about these days as a blue chip industry is information technology (IT) which has suddenly taken Indians all over the world. This industry has definitely earned India pride of place in the global arena. However, the same cannot be said of all other industries, though Indian presence is felt all over the world in diverse industries. Each of these industries has its own way of managing their human capital.

The global industry is not merely a collection of domestic industries but a series of linked domestic industries in which the rivals compete against each other on a truly worldwide basis.

3. Reliance of the Multinational on its Home-Country Domestic Market: It is often assumed that a global market perspective would be dominant in a firm's culture and thinking because of the large size of its operations. But size is not the only key variable when looking at a multinational; the extent of reliance of the multinational on its home-country domestic market is also very important. A very large domestic market influences all aspects of how a multinational organises its IT activities. Such a market will also influence the attitude of senior managers towards their international activities. Processes that have succeeded in the domestic market are likely to find favour in the international market as well.

4. Attitude of Senior Management: It is likely that if senior management does not have a strong international orientation, the importance of international operations may be under emphasised in terms of corporate goals and objectives. In such situations, managers may tend to focus on domestic issues and minimise differences between international and domestic environments. They may assume that there is a great deal of transferability between domestic and international HRM practices. This failure to recognise differences in managing human resources in foreign environments frequently results in major difficulties in international operations.

1.9 ENDURING CONTEXT OF IHRM

Just as HR professionals are strategic partners in business in domestic HRM, so also are they in IHRM. It becomes, therefore, a necessity for IHRM to live up to the vicissitudes of the global environment. This environment is fraught with perils, political events and economic changes. These at times can be facilitators of internationalization and at times barriers to the same. The balancing act is done mostly by human beings and so they have to be managed more effectively. The concept of the world becoming a global village is only indicative of the interdependency among countries. The complexities arising out of this are also enormous. Trade agreements such as the World Trade Organization (WTO) and regional integration of countries such as the European Union (EU) have accentuated this interdependency.

Division of Labour

Since human considerations are more important than financial ones in international business, we shall look at the increased relevance of the division of labour, which developed as a concept some centuries ago. In the existence of a sprawling global network, carrying on business single handedly is difficult indeed. Even at the unit level in a single location, demands for specialization are common today, especially due to the existence of the sophisticated technology.

Adam Smith is more typically referred by economists for his contributions to classical economic doctrine. His discussion in *The Wealth of Nations* (1776) included a brilliant argument on the economic advantages that organisations and society would reap from the division of labour. Smith used the pin manufacturing industry for his example. He concluded that division of labour raised productivity by increasing each worker's skill and dexterity, by saving time that is commonly lost in changing tasks, and by encouraging the creation of labour-saving, inventions and machinery.

Division of labour which started at a micro level three centuries back, is now part of practical experience in the international arena as well as in domestic business. As the world has shrunk due to the development in telecommunication links and electronic media, interdependence on various disciplines is a necessity. Nowadays, we do not stop with specialization but go into super specialization.

Forces for Change

The international firm, irrespective of size and geographic reach, faces continuing forces for change that affect its characteristics and operations, which in turn plays certain demands on its management. The key trends that are generally accepted to be forces for change in the current global workplace are: (a) global competition, (b) growth in mergers, acquisitions and alliances, (c) organisation restructuring, and (d) advances in technology and telecommunications.

With the spread and diversity of international business and their involvement in global activities, it is generally felt that the levels of competition are increasing. Therefore, concerns have been expressed about standardized work practices of multinationals and also stake holder pressure. Increased global competition not only has an impact on a firm's competitive position but also on issues such as business ethics and social responsibility of multinationals, and this needs the attention of HR managers. A contributing element of, and also response to global competition has been an increase in the number of mergers and acquisitions.

It has been recognised that as a consequence of growth and changes in their environment, firms constantly realign their operations and activities to support changes in strategic directions. The past decades have seen large-scale downsizing as firms outsource activities, sell under performing units, engage in plant rationalization, integrate acquired operations and merge businesses. Organizational restructuring is again an outcome or fall-out of global competition.

A striking example of advance in technology and telecommunication has been the rapid adoption of the Internet. India is currently in the midst of an e-commerce revolution. As a consequence of the above forces of change, there is need for flexibility in terms of management approaches and action. Multinationals need to have: (a) flexibility of freedom of operations, (b) local responsiveness, (c) knowledge sharing, and (d) transfer of competence to manage people. We have to be alive to local situations and adapt ourselves to them so as to quickly respond to the same. That is why the mantra of the 1990s used to be 'think global, act local' – a slogan which makes managers in multinationals realise that subsidiaries require the freedom to act according to their local environment, and simultaneously have an overall view of the firm's global position.

In the context of multinationals, competition has to blossom into coordination and collaboration – even among competitors. Knowledge explosion has made everyone realise that all are not well versed in every aspect of technology and market. Therefore, today it is essential to share knowledge and information in order to survive and grow. Organisations need to provide proper communication networks that promote knowledge sharing. Along with this, employees are also to be trained and developed in the required competencies that are regarded as a source of competitive advantage. Towards this, the management should identify what are the core competencies of the organisation to be nurtured in order to gain competitive advantage.

1.10 SUMMARY

- The purpose of this unit has been to provide an overview of the field of international HRM.
- International HRM differs from domestic HRM in many respects.
- The complexity involved in operating in different countries and employing different national categories of employees is a key variable differentiating domestic and international HR.
- The differences between IHRM and HRM mainly lay in more HR activities; the need for a broader perspective; more involvement in employees' personal lives; changes in emphasis as the workforce mix of expatriates and locals varies; risk exposure; and broader external influences.
- We have discussed four other variables that moderate differences between domestic and international HRM: the cultural environment, the industry (or industries) with which the multinational is primarily involved, the extent of reliance of the multinational on its home country domestic market, and the attitudes of senior management.
- Also we discussed the need for an expanded view of the role of HRM in an international operation.
- The forces which have an impact on IHRM are global competition; growth in mergers, acquisitions and alliances; organisational restructuring and advances in technology and telecommunication.
- The multinational management has to deal with the various forces through flexibility, local responsiveness, knowledge sharing and transfer of competence.

1.11 KEY TERMS

- **Globalisation:** Process of establishing manufacturing facilities; marketing the product; procuring finance; human resource; and raw materials throughout the world.
- **Multinational Corporation (MNC):** An organisation which operates in more than one country.
- **Transnational Corporation (TNC):** An organisation, that produces, markets, invests and operates across the world.
- **Home country / Parent country:** Is the one where the headquarters of a MNC or TNC is located.
- **Host Country:** Is the one where the subsidiary/branch of a MNC/TNC is located.

- **Parent Country Nationals (PCNs) / Home Country Nationals:** Are employees of a MNC/TNC who are the citizens of home country / parent country of that MNC/TNC.
- **Host Country Nationals (HCNs):** Are employees of a 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):** Are employees of a MNC/TNC or their subsidiaries/branches, and are citizens of those countries other than the MNC/TNCs home country and/or host country.
- **Repatriation:** Return of the expatriate to the home country after completion of the foreign assignment.
- **Expatriate:** An employee working and residing in a foreign country during his/her tenure of foreign employment. Expatriates include: (a) foreign employees working in domestic companies, (b) parent country nationals working in a MNC's subsidiary, (c) third country nationals working in MNCs, and (d) host country nationals working in the parent country of the MNC/TNC.
- **Inpatriate:** Are those employees transferred from subsidiary to headquarters. Employees, thus transferred include parent country nationals, host country nationals, and third country nationals.
- **Guest employees:** Foreigners with distinctive and rare skills who are invited to perform certain activities during a specified period.
- **Work permit:** 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.

1.12 SELF-ASSESSMENT QUESTIONS

1. Define the term 'international human resource management'.
2. What are the main similarities and differences between domestic and international HRM?
3. What are the different activities involved in international human resource management?
4. What are the different enduring complexities of international human resource management?
5. Discuss the variables that moderate differences between domestic and international HR practices?

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UNIT 2 ORGANISATIONAL CONTEXT OF IHRM

Objectives

After going through this unit, you should be able to:

- Explain different approaches adopted by managers in building multinational organisations.
- Describe organisational structures in MNCs.
- Understand control and coordination mechanisms.
- Appreciate different modes of operation like contractual operation and cooperative operation.

Structure

- 2.1 Introduction
- 2.2 Stages of Internationalisation
- 2.3 Organisational Structure
- 2.4 IHRM Approaches
- 2.5 IHRM Strategy and Model
- 2.6 Control Mechanisms
- 2.7 Mode of Operation
- 2.8 Summary
- 2.9 Key Terms
- 2.10 Self-Assessment Questions
- 2.11 References
- 2.12 Further Readings

2.1 INTRODUCTION

This unit examines the organisational context of international HRM, including the impact of international growth on the firm's structure, and internal control processes. It also focuses on the way in which international organisations manage their human resources in different national contexts. The human resource function does not operate in a vacuum as with other areas of organisation, the shift from a domestic to a global focus affects the HR functions to a considerable extent. Organisations working across national boundaries, therefore, have to agree on HR policies and practices which maintain some coherence while still being sensitive to critical aspects of difference. Knowledge about the stages of internationalisation, organisational structure, control mechanism and modes of operation in the international arena will enable us to appreciate the organisational context within which IHRM has to operate.

2.2 STAGES OF INTERNATIONALISATION

Many multinationals go through the evolution from a domestic to a truly global organisation. P.J. Dowling and D.E. Dowling¹ indicate the diverse stages involved in

this evolution process. Not all firms go through these stages sequentially. Though a few companies skip some of the stages and become global faster, others may go through all the stages at a faster rate than others, depending upon their already available networks. Invariably, the number of steps, or stages, along the path to multinational status varies from firm to firm, as does the time frame involved. Linked to this evolutionary process are structural responses, control mechanisms, and HRM policies. Now we will examine the typical path from domestic to global organisation in order to draw out key HRM implications.

Early Stages of Internationalisation

Exporting involves manufacturing the products in a centralised location and exporting them to other national markets. Exporting avoids the cost of establishing manufacturing facilities in the host country, which is substantial. It takes advantage of experience curve effects and location economies. Exporting will not be a profitable proposition when there is a possibility of manufacturing the products in favourable, low cost location away from company's home base. Another limitation is the high transport expenditure involved in exporting bulky items. Hence many multinational companies manufacture their products in various regions. Moreover, the threat of tariff barriers by governments of host countries will make exporting uneconomical.

Exporting is typically the initial stage for firms entering international operations. As such, it rarely involves much organisational response until the level of export sales reaches a critical point. Of course, simple exporting may be difficult for service companies (such as legal firms) so that they may be forced to make an early step into foreign direct investment operations (via a branch office, or joint venture²).

Alternately, some companies try out international licensing. This involves an arrangement by which a foreign licensee buys the rights to manufacture a company's product in the licensee's country for a negotiated fee. Licensing is pursued as a strategy by manufacturing companies. The licensee has to make arrangements for the resources required for overseas operations.

The marketing or sales manager of the firm typically is responsible for setting up export activities. As foreign sales increase, an export manager will be appointed and given the responsibility for developing and maintaining customers, interacting with the firm's intermediaries and planning for overall market expansion. A firm starting international operations will usually hire an export manager from outside rather than promote from within. The reason is that knowledge of the product or industry is less important than international experience. Promoting an export manager from within and who does not have knowledge of the export market or the technology means that the firm would incur a huge cost for him to acquire this knowledge and wait for a longer time until he acquires it.

As the firm progresses from exporting to foreign involvement, human resources planning activities will initially focus on need vi-a-vis various markets and functions. Existing personnel can be assessed and plans made to recruit, select and train employees for positions that cannot be filled internally. The four major categories of overseas assignments are: (a) CEO – to oversee and direct the entire operation; (b) functional head – to establish and maintain departments and ensure their proper function; (c) trouble shooters – who are utilised for their special expertise in analysing, and thereby preventing or solving particular problems; and (d) white or blue-collar workers.

One of the major sources of competitive advantage of global corporations is their ability to attract talent from around the world. The corporations need effective management development systems, with the objective of creating and carefully allocating management personnel.

2.3 ORGANISATIONAL STRUCTURE

Organisations are economic and social entities in which a number of persons perform multifarious tasks in order to attain common goals. Organisations are effective instruments in that they help individuals accomplish personal objectives that they (persons) cannot achieve alone. According to Argyris organisations are usually formed to satisfy objectives, "that can best be met collectively". Organisation is only a means to an end. It takes certain inputs from the environment and converts them into specified outputs desired by the society.

Organisation design deals with structural aspects of organisation. It aims at analysing roles and relationships so that collective effort can be explicitly organised to achieve specific ends. The design process leads to the development of an organisation structure consisting of units and positions.

As the organisation grows in foreign production/service/market size, it moves towards standardisation and diversification. This sheer magnitude of operations spread across the world makes the business unmanageable. A number of typologies of organisational firms developed denote a move away from hierarchical structures towards hierarchical, transnational, and network structures.

Matrix Structure

In the matrix structure, horizontal differentiation process is across two dimensions: product division and geographic area. The philosophy is that responsibility for operating decisions pertaining to a particular product should be shared by the product division and the various areas of the firm. It is believed that this dual decision making responsibility should enable the firm to simultaneously achieve its particular objectives. In a classic matrix structure, giving product divisions and geographical areas equal status within the organization reinforces the idea of dual responsibility. Individual managers thus belong to two hierarchies (a divisional hierarchy and an area hierarchy) and have two bosses accordingly.

The reality of the global matrix structure is that it often does not work as the theory predicts. In practice, the matrix is often clumsy and bureaucratic. Normally, it requires so many meetings that it is difficult to get any work done. The need to get an area and a product division to reach a decision can slow decision making and produce an inflexible organisation unable to respond quickly to market shifts or to innovate. The dual hierarchy structure can lead to conflict and perpetual power struggles between the area and the product divisions, catching many managers in the middle. In the light of these problems, many transnational firms are now trying to build flexible matrix structures based more on firm-wide networks and a shared culture and vision than on a rigid hierarchical arrangement. Within such companies, informal structure plays a greater role than the formal structure.

Bartlett and Ghoshal² observe that, in practice, particularly in the international context, the matrix has proven to be all but unmanageable. They conclude that the most successful multinationals today focus less on searching for the ideal structure, and more on developing the abilities, behaviour, and performance of individual managers. In this process, individual capabilities are captured and the entire firm is motivated to respond cooperatively to a complicated and dynamic environment. If, however, the multinational opts for a matrix structure, particular care must be taken with staffing.

Mixed Structure

In an attempt to manage the growth of diverse operations, some firms have opted for what can only be described as a mixed form. Although all structural forms are complex and difficult to manage effectively, given a firm's developing capabilities and

experience at each new stage, mixed structures appear even more complex and harder to explain, implement, and control. However, it is important that all employees must understand the mixed structure and its supporting mechanisms, such as corporate identity, interpersonal relationships, management attitudes, and HR systems, particularly promotion and reward policies.

The Heterarchy

The heterarchy is a structural form proposed by Hedlund³ that recognises that a multinational may have a number of different kinds of centers apart from the traditional center referred to as "headquarters". Hedlund argued that competitive advantage does not necessarily reside in any one country. Rather, it may be found in many countries, so each subsidiary center may be simultaneously a center and a global coordinator of discreet activities, thus performing a strategic role not just for itself, but for the MNE as a whole.

From a HRM perspective, the heterarchy is interesting in that its success appears to rest solely on the ability of the multinational to formulate, implement, and reinforce the required human resource elements. Hedlund recognises that the heterarchy demands skillful and experienced personnel as well as sophisticated reward and punishment systems in order to develop the normative control mechanisms necessary for effective performance. In this regard, the use of staff as an informal control mechanism is important.

Transnational

The term transnational has been coined to describe a new organisational form that is characterised by an interdependence of resources and responsibilities across all business units regardless of national boundaries. The transnational tries to cope with the large flows of components, products, resources, people, and information among its subsidiaries, while simultaneously recognizing the distributed specialized resources and capabilities. As such, it demands a complex process of coordination and cooperation involving strong cross-unit integrating devices, a strong corporate identity, and a well-developed worldwide management perspective. In their study, Bartlett and Ghoshal noted:

Among the companies we studied, there were several that were in the process of developing such organizational capabilities. They had surpassed the classic capabilities of the multinational company that operates as decentralized federations of units able to sense and respond to diverse international needs and opportunities; and they had evolved beyond the abilities of the global company with its facility for managing operations on a tightly controlled worldwide basis through its centralized hub structure. They had developed what we termed transnational capabilities – the ability to manage across national boundaries, retaining local flexibility while achieving global integration. More than anything else this involved the ability to link local operations to each other and to the center in a flexible way, and in so doing, to leverage those local and central capabilities.

Transnational organisations aim to develop a truly global culture and mindset amongst their employees. As a matter of fact, the heterarchy and the transnational share a common factor with respect to the human resource spectrum. Hence transnational managers should be developed to think and act across national and subsidiary boundaries. Staff transfers play a critical role in integration and coordination.

Some MNCs are linked formally via the organisation's structure and standardized procedures, but they are informally so through interpersonal contact and socialization which is otherwise known as networking. P.J. Dowling and D.E. Welch noted:

Apart from the intraorganizational network (comprising of headquarters and the numerous subsidiaries), each subsidiary also has a range of external relationships (involving local suppliers, customers, competitors, host governments, and alliance partners). The management of both the intraorganizational and interorganizational spheres, and of the total integrated network, is crucial to global corporate performance. It involves what has been termed a less hierarchical structure featuring five dimensions: delegation of decision-making authority to appropriate units and levels; geographical dispersal of key functions across units in different countries; de-layering of organizational levels; de-bureaucratization of formal procedures; and differentiation of work, responsibility, and authority across the networked subsidiaries.

Growth in the firm's international business activity does require structural responses, but the evolutionary process will differ across multinationals. Apart from the country of origin, other variables namely, size of organisation, pattern of internationalization, management policies, and so on also play a part in the evolution of the firm from a domestic oriented into a global oriented. Firms that classify themselves as global operators confront common coordination issues. Human resource management plays a key role in control and coordination processes particularly where less-hierarchical structures are concerned.

2.4 IHRM APPROACHES

The IHRM literature uses four terms to describe MNE approaches in managing and staffing their subsidiaries: ethnocentric, polycentric, regiocentric, and geocentric. These terms are taken from the seminal work of Perlmutter,⁴ who claimed that it was possible to identify among international executives three primary attitudes – ethnocentric, polycentric, and geocentric. To demonstrate these three attitudes, Perlmutter used aspects of organisational design, such as decision making, evaluation and control, information flows, and complexities of organisation. A fourth attitude – regiocentric – was added later.

The four approaches are discussed below:

1. **Ethnocentric:** Few foreign subsidiaries have any autonomy; strategic decisions are made at headquarters. Key positions at the domestic and foreign operations are held by headquarters' management personnel. In other words, subsidiaries are managed by expatriates from the home country.
2. **Polycentric:** The MNE treats each subsidiary as a distinct national entity with some decision-making autonomy. Subsidiaries are usually managed by local nationals (HCNs) who are seldom promoted to positions at headquarters. Likewise, PCNs are rarely transferred to foreign subsidiary operations.
3. **Geocentric:** In this, the MNE is taking a worldwide approach to its operations, recognizing that each part (subsidiaries and headquarters) makes a unique contribution with its unique competence. It is accompanied by a worldwide integrated business, and nationality is ignored in favour of ability.
4. **Regiocentric:** It reflects the geographic strategy and structure of the multinational. Like the geocentric approach, it utilises a wider pool of managers

but in a limited way. Personnel may move outside their countries but only within the particular geographic region. Regional managers may not be promoted to headquarter positions but enjoy a degree of regional autonomy in decision making.

2.5 IHRM STRATEGY AND MODEL

There cannot be any specific IHRM model which we can call a unique model. However, linking human resource practices with business strategy as propounded by Bird and Beechler⁵ provides an approach to IHRM and helps evolve a model out of it.

The following model emerges out of their writings:

1. **The Environment-Business Strategy Match:** One way of viewing the external environment of MNCs is to identify the nature of international competition in the industry in which a firm is involved. There are two types of industry competition – multi domestic and global while the environment in the MNCs can be classified into global v. multi domestic types. Firms strategic orientation can also be classified into two broad types: cost leadership and product differentiation. A cost leadership strategy seeks to achieve competitive advantage by being the least-cost producer of a product, while a product differentiation strategy seeks competitive advantage by providing unique value to the product. Under a cost leadership strategy, the internal operations of a firm command attention and the drive is for internal efficiency. On the other hand, a product differentiation strategy seeks competitive advantage through the ability to provide unique value to a product, one that will be more localised in terms of its appeal to a particular foreign market or segment. A differentiation strategy requires a firm to develop an external focus and be intimately aware of what its customer desire.
2. **A Business Strategy - HRM Strategy Match:** If a MNC's performance is based on its capacity to internally align its operations in a way that allows it to match environmental constraints, then there must be a way to determine whether or not a firm is properly aligned with its environment. More than any other function within a MNC, the management of human resources is decentralised. With the exception of matters related to expatriates and international assignments, the vast majority of HRM affairs are handled at the level of the subsidiary. At the subsidiary level, the requirement for internal consistency may be interpreted as the degree of integration with the parent company necessary for success.
3. **Human Resource Management Strategies:** Business strategy determines how a firm competes in a given business. Firms select business strategies in accordance with both the evaluations they make about the environment in which they wish to compete and also the resources available within the firm. In order to develop and implement a business strategy, however, it is necessary to break it down into its various components or to develop functional strategies. These functional strategies are further broken down into policies which, when implemented, become practice.
4. **Consistency in Parent-Subsidiary and HRM Strategy Alignment:** Although HRM constitutes the most decentralised of all MNC functions, it is also true that the increasing globalization of MNC has brought about an increased desire and need for greater coordination and consistency between parent and subsidiary. The need for a parent-subsidiary alignment of HRM activities may vary depending on the strategic orientation of the MNC and the nature of international competition for the industry in which it competes. There must be

2.6 CONTROL MECHANISMS

In any social context, control mechanisms are both formal as well as informal. The formal mechanism embraces structure, reporting systems, budgets, performance targets, and formal communication. The informal mechanism has two major components, namely, (a) personal relationships and informal communication; and (b) corporate culture. Of the two, formal controlled mechanism is more of a bureaucratic nature which necessarily entails strict documentation.

Control Through Personal Relationships

Horizontal communication and networking of relationships with various internal and external groups of people or agencies in a personal capacity can be used for organisational advantage. Many a time, it is during training programmes conducted for personnel from various parts of the world either at the headquarters or any other common place, enable international employees of the firm to come into contact with each other and develop personal rapport. What is most important for building relationships is a common language. Hence, language training for communication, both formal and informal, is a must.

Control Through Corporate Culture

Corporate culture is essentially a process of socializing people so that they come to share a common set of values and beliefs that shape their behaviour and perspectives. A strong corporate culture may inhibit the multinationals ability to introduce change and thus prevent the required level of local responsiveness and flexibility.

In order to ensure that the corporate culture is productive, HR activities should point towards establishing corporate culture identity among the employees. Some of these activities are recruitment and selection practices, training and development programmes, reward systems, and promotion and placement of staff.

2.7 MODE OF OPERATION

According to Welch and Welch⁶ internationalising organisations may adopt contractual (such as licensing, franchising, management contracts and projects and cooperative such as joint ventures) modes in order to enter and develop foreign markets. These modes are not mutually exclusive. Welch and Welch explain:

The many forms of operation modes may demand different skills and place varying stresses on the resources of the company, particularly on its personnel. For example, licensing might involve only limited commitments of staff, whereas the availability of key people becomes particularly critical for the success of a management contract in which the company is required to transfer a number of experienced managerial and technical staff to run a foreign facility.

Contractual Mode

By its very nature, the contractual mode means that skill, usually talented staff will be needed. Knowledge transfer is an important component, involving the training of HCN staff. Luostarinen and Welch⁷ comment:

The overall success of the contract operation, including the training aspect, depends on the quality of staff transferred or appointed to the contract venture, and therefore overall international human resource management by the company. Because management contracts are normally not a mainstream operational method, when used they will often receive secondary consideration in staffing requirements. For this reason, companies tend not to be keen to commit large numbers of quality staff to contract operations. Likewise the client organization prefers not to have large numbers of expatriate staff as it makes eventual replacement more difficult. Thus, for both sides there is an incentive to keep down foreign staff numbers.

Cooperative Mode

This means different things to different people: strategic alliance, cooperative venture, collaborative agreement, and so on. "A corporate alliance is a formal and mutually agreed commercial collaboration between companies. The partners pool, exchange, or integrate specified business resources for mutual gain. Yet the partners remain separate businesses."⁸ Regardless of the motive for entering into such an arrangement, the resultant partnership adds another dimension to a firm's structure.

The various forms of inter-firm linkages affect HRM in different ways depending upon the type of alliance involved. For example, in an international joint venture, a new entity that brings together managers from two or more firms, the managers must become accustomed to working with a foreign partner or partner(s). "Staffing the joint venture with managers who are flexible in terms of different management styles and philosophies is probably the single most important task facing the human resource function at this critical time."⁹ Assigning managers to the joint venture, evaluating their performance, handling aspects pertaining to career path and compensation benefits are some of the HR issues and activities that affect the successful conduct of international joint ventures.

2.8 SUMMARY

- This unit focuses on the organisational context in which IHRM activities take place.
- It has outlined the various stages of internationalisation, concentrating on the different approaches to building up multinationals – from the ethnocentric, polycentric, geocentric, and regiocentric modes.
- We have discussed different organisational structures and approaches of MNCs like matrix structure, mixed structure, the heterarchy, transnational, and approaches like ethnocentric, polycentric, geocentric, and regiocentric approaches.
- Different structural arrangements have been identified along with control and coordination aspects associated with each firm.
- The various modes used by multinationals for foreign market entry and expansion have also been included in this unit to demonstrate IHRM implications.
- We have taken note of control mechanisms that prevailed in international organisations through personal relationships as well as through corporate culture.
- Also we deliberated on the contractual and cooperative modes of operation.

2.9 KEY TERMS

- **Exporting:** This involves manufacturing the products in a centralized location and exporting them to other national markets.
- **Licensing:** This involves an arrangement by which a foreign licensee buys the rights to manufacture a company's product in the licensee's country for the negotiated fee. Licensing is pursued as a strategy by the manufacturing companies.
- **Franchising:** In this, the companies sell limited right to use their brand name in lieu of lumpsum one time payment and for a percentage of franchisee's profits.
- **Heterarchy:** In a heterarchical MNC, control is less reliant on the top- to-bottom mechanisms of previous hierarchical modes and more on normative mechanisms.
- **Hierarchy approach:** Under this form, control rests at the MNC's headquarters (parent country) with strong reporting and control systems for subsidiaries.
- **Polycentric approach:** Organisations adopting this type of structure reflect less parent control and much greater autonomy of subsidiaries.
- **Ethnocentric approach:** Under this approach, the domestic companies view foreign markets as an extension to domestic markets.
- **Regiocentric approach:** Under this approach, subsidiaries consider regional environment for policy/strategy formulation.
- **Geocentric approach:** Under this approach, companies view the entire world as a single country.
- **Contractual mode:** A contractual mode means that skill usually talented staff will be needed. Knowledge transfer is an important component, involving the training of HCN staff. A MNC may operate through contractual model.
- **Cooperative mode:** A cooperative alliance is a formal and mutually agreed commercial collaboration between companies. The partners pool, exchange, or integrate specified business resources for mutual gain. Yet the partners remain separate businesses. A MNC may operate through cooperative model.

2.10 SELF-ASSESSMENT QUESTIONS

1. Trace the early stages of internationalisation.
2. Enumerate different approaches to organisational structures in MNCs.
3. Elaborate on the control mechanism in international human resource management.
4. What are the contractual and cooperative modes of operation?

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UNIT 3 CULTURAL CONTEXT OF IHRM

Objectives

After going through this unit, you should be able to:

- Explain cultural differences and similarities in a global perspective.
- Discuss the Hofstede's framework of cultural differences.
- Identify different strategies for managing diversity.

Structure

- 3.1 Introduction
- 3.2 Concept of Culture
- 3.3 Strategic and Cultural Values
- 3.4 Cultural Sensitivity
- 3.5 Cultural Differences and Similarities
- 3.6 Strategies for Dealing with Cultural Differences
- 3.7 Hofstede's Framework of Cultural Differences
- 3.8 Global Framework for Assessing Cultures
- 3.9 Kluckhohn-Strodbeck Framework
- 3.10 Workforce Diversity
- 3.11 Strategies for Managing Diversity
- 3.12 Cultural Shock
- 3.13 Behaviour Variation across Cultures
- 3.14 Summary
- 3.15 Key Terms
- 3.16 Self-Assessment Questions
- 3.17 References
- 3.18 Further Readings

3.1 INTRODUCTION

Many think that the way we dress or behave with others is culture. To some it means refined behaviour or sophistication in living, yet others think it is the way we speak. If we are involved in international businesses it is essential to have a clear understanding of culture and cultures of different countries. The management is required to cope with problems of alien cultures, unfamiliar laws, languages, attitudes, practices, competitors, managerial styles, work ethics, and so on. Human resource function such as hiring, maintaining and remunerating must acquire global perspective to face this challenge, the management must be flexible and proactive. By helping the best qualified people execute the company's strategy on a global scale, the management can become a source of competitive advantage for the company.

3.2 CONCEPT OF CULTURE

'Culture', in simple words, means the way of life of a group of people. It is shared by all or almost all members of the social group. It applies to most of the people most of the time, never to all the people all the time. We think of people belonging to another culture if their way of behaviour is significantly different. Anthropologists describe culture as a whole that includes beliefs, morals, customs, knowledge, law, art and any capabilities and habits acquired by a person as a member of society. It includes behaviour which may be considered as right or wrong, admirable or absurd, by people from a different culture. This is because behaviour is driven by beliefs and different people hold different beliefs about what is right or wrong, or in other words have different values.

Social and cultural factors in various countries of the globe affect the international human resource management. These factors include attitude of the people to work, attitude to wealth, family, marriage, religion, education, ethics, human relations, and social responsibility. Culture is taught and behaviour pattern, derived mostly from climate and economic conditions. Further culture is socially shared, learned, subjective, cumulative and dynamic.

3.3 STRATEGIC AND CULTURAL VALUES

As the company grows and becomes successful, it usually develops a culture that distinguishes it from other companies and that is one of the reasons for its success. In other words, a company succeeds as a result of what the company does, its strategy, and how it does it, its culture. The process of creating an organisational culture is really a process of linking its strategic values with its cultural values. Strategic values are the basic beliefs about an organisation's environment that shape its strategy. Strategic analysis evaluates economic, demographic, public policy, technological, and social trends to identify needs in the marketplace that the organisation can meet. Cultural values are the values employees need to act on for the organisation to carry out its strategic values. Organisations that attempt to develop cultural values that are not linked to strategic values may end up with an empty set of values that have little relationship to its business.

After developing its strategic and cultural values, the organisation must establish a vision of the organisation's direction. This "vision" is a picture of what the organisation will be like at some point in the future. It portrays how the strategic and cultural values will combine to create the future. For example, an insurance company might establish a vision of "protecting the lifestyles" of two million families by the year 2005." In effect, it synthesizes both the strategic and cultural values as it communicates a performance target to employees.

Operationally, development of culture would involve developing a strong corporate identity, development of important values, building healthy traditions, and developing consistent management practices.

What is considered good in one culture may not be considered so by people in other cultures. When people go abroad and find people behaving in different ways, they are perplexed. They may not even understand why people in other countries are not behaving like themselves. They may find such behaviour 'strange', and even wrong.

Values are general beliefs about what is right and wrong and determine general preferences. They drive, often unconsciously, our thinking and action. Managerial values influence all managerial activities such as communication, superior/subordinate relationship, selection and reward systems, leadership, and so on.

Here is an illustration of value system. Latin American managers feel they should recruit members of their family wherever possible. Americans depend totally on track record and qualification. Indians believe that happiness of one's entire family – including the extended family should be of utmost importance to all. But Americans believe that individuals should achieve more and more success and accumulate more and more material things like money, houses, cars etc for themselves, even if it leaves little time for the family.

Box 1
The Hewlett-Packard Way
Enduring values through changing times

Based on the belief that people are committed to doing their jobs well and are capable of making sound decisions, Hewlett-Packard practices a highly innovative style of management known simply as the HP Way.

The HP Way engenders a very open and informal corporate culture. Consistent with this the company has developed a matrix style of organisation rather than the more formal pyramid management structure popular among many companies.

It has been our policy not to have a tight military-type organisation, but rather to have overall objectives which are clearly stated and agreed upon, and to give people the freedom to work towards these goals in ways they determine best for their own areas of responsibility.

The Hewlett-Packard work environment fosters individual dignity, pride in accomplishment and the motivation to produce quality work. In return the company ensures that employees share in the success which their efforts make possible.

Organisational values

- Trust and respect for individuals;
- A high level of achievement and contribution;
- Conducting business with uncompromising integrity;
- Achieving common objectives through teamwork;
- Encouraging flexibility and innovation.

Corporate objectives

- Profit;
- Customer respect and loyalty;
- Participating in relevant fields of interest;
- Growth;
- Helping people in sharing company success;
- Management that fosters initiative and creativity;
- Corporate citizenship and responsibility.

Strategies and practices

- Management by wandering around;
- Management by objectives;
- Open-door policy;
- Total quality control.

3.4 CULTURAL SENSITIVITY

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. However, 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.

Cultural sensitivity is to have the empathy to accept cultural differences without allowing one's own values to surface in unproductive or confrontational ways.¹ Therefore, individuals have to understand cultural differences and follow them rather than be openly judgemental of the culture of the land.

As all cultures are basically good, employees and managers of global companies when they work in foreign countries should avoid ethnocentric/parochial behaviour.²

According to Hall³, 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. 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.

A study on Japanese managers working in Germany reveals that 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.

Cross-cultural communication process and negotiations are important in understanding cross-cultural sensitivity. 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 east 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'.

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 eye-to-eye contact as it is regarded as an act of confrontation and aggression.

Irrespective of the religion, race, region, caste, 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 interpretation⁴. The cultural universals enable the businessmen to market the products in many foreign countries with modifications, e.g. TVs, cars, and video games. Culture is not a barrier to computer software.

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.

Tips for Cultural Sensitivity

Here are some tips for becoming more sensitive to a new culture:

- Watch body language. Body language provides different signals in a foreign country.

- Learn some of the key words of the country. You should learn the language if you plan to stay there for a longer period. A language course will also provide tips on how people communicate in their country.
- Learn certain customs of your new country.
- Learn how to communicate and what you can about timing. It is everything when it comes to communicating or getting a job done in a foreign country.

Box 2 Cultural Sensitivity

Example 1

An Indian businessman on his first trip to Japan negotiated a very large deal with a Japanese company. On his return to India, he sent an email to the Japanese party expecting to receive a reply by the next day. When he did not receive any reply he thought that the deal was off. He panicked and diverted his team to a different project. But he received an encouraging reply after a week. The problem was lack of knowledge of a different culture. Indians expect a quick reply to their emails. The Japanese check all aspects from all concerned people before replying.

Example 2

Mohan joined a firm in Japan as a senior manager. On the day of joining, he was asked if he would like to pick up the appointment letter and other related forms. Mohan thought it was a suggestion and said he would pick it up later. By saying this he lost the goodwill of his employers without even realising it. The Japanese communicate indirectly. What they actually meant was that Mohan should pick them up the same day. But Mohan failed to understand it because different cultures communicate in different ways. In addition, the Japanese expect people to respond quickly. By saying that he would pick them up later, he created a negative impression.

Example 3

Shruti's husband had been relocated to China as procurement manager by his company. Shruti was told by one of her Indian friends that personal relations are very important for doing business in China. She called one of the biggest and most important suppliers of her husband for dinner. In her desire to please this important person, she decorated her house with Chinese lanterns. The guest looked upset. He stiffly bowed and walked out. Shruti did not know that Chinese use different lanterns for different occasions and she had decorated her home with funeral lanterns.

It is apparent from the above examples that knowledge of different cultures is essential for operating successfully in a globalised world.

3.5 CULTURAL DIFFERENCES AND SIMILARITIES

Cultural factors influence human behaviour. Human behaviour that affects business includes: employee behaviour, consumer behaviour, and behaviour of other stake holders. People with different cultural backgrounds behave differently even at the workplace. Cultures sometimes clash due to different behavioural expectations. For example, problems in Japan and India are normally resolved behind closed doors. But in most of the western cultures, including that of the USA, the conflicts are to be brought out in the open and discussed face-to-face in public.

For understanding cultural issues in organisational setting against international perspective, it is essential to understand employee behaviour. Five basic conclusions can be drawn about cross-cultural impact on employee behaviour:

First, individual behaviour in organisational setting varies across cultures. Thus, employees based in India, Japan, U.S. and Germany are likely to have different

attitudes and patterns of behaviour. The behaviour patterns are likely to be widespread and pervasive within an organisation.

Second, culture itself is an important variable for this variation. There are also other factors like differing standards of living and varied geographical conditions which cause variations in behaviour. However, culture is a significant factor.

Third, although behaviour within organisational setting remains quite diverse across cultures, organisations themselves appear to be increasingly similar. Hence, managerial practices at a general level may be alike, but the people who work within organisations differ markedly.

Fourth, the same manager behaves differently in different cultural settings. A manager may adopt one set of behaviours when working in one culture, but may change those behaviours when moved into a different culture.

3.6 STRATEGIES FOR DEALING WITH CULTURAL DIFFERENCES

Businesses should identify the cultural variations in foreign countries and evaluate their influence on human resource management, marketing, and stakeholder relations.

Making adjustments, wherever necessary: Business firms, after evaluating the influence of cultural variations on business practices and processes should decide the nature and degree of adjustments necessary. Host country's culture, in certain areas do not expect foreigners to adjust to them. However, human resource practices need to be adjusted based on the host country culture.

Communication: Communication plays a vital role while doing business in various foreign countries. Businesses should be cautious in spoken and written language, translation, and the silent language; otherwise they face serious problems in various transactions. Poor translations may also result in tragic consequences. The collision between aircraft from Air Kazakhstan and Saudi Air in New Delhi, was due to inaccurate translations. Therefore, appropriate technical words should be chosen in advertisements, reports, agreements and in all other business transactions.

Competitive advantage: Culture of a country determines cost of doing business, productivity, entrepreneurship and innovation. Japan's culture emphasises on teamwork, loyalty, honesty, and reciprocal obligations. Education enhances employee commitment and increase in productivity and thereby reduces cost of operations. These factors ultimately improve competitive advantage of the business.

Culture and business ethics: Though the basic ethical principles are more or less the same throughout the world, specific issues are closely related to the culture of a country. Thomas Donaldson suggests that international business firms should be guided by the following ethical principles:

- respect for core human values and human rights
- respect for local traditions
- taking the situational factors into consideration while deciding what is ethical and what is unethical.⁵

Impact of culture on consumer behaviour: Culture influences the behaviour of the consumer. Though valid generalisations have not yet been developed Montrose, Somers, and Jerome Kernan have made a beginning in this direction.⁶ They have identified the value orientations that underline market behaviour in six categories: (a) egalitarian or elitist; (b) prone to lay stress on accomplishment or on inherited attributes; (c) expected material or non-material rewards; (d) evaluating individuals or

products in terms of objective norms or of subjective standards; (e) focusing on the distinctiveness of the parts; and (f) orientation towards personal rather than group's gain. For instance the US consumer tends to have different attitudes as compared to that of British attitudes.

Case

Cross-Cultural Managerial Differences

Setex Inc. is a Japanese American joint venture that manufactures car sheets in south western Ohio. The company gets high marks from its blue-collar workers for the way they are treated. The factory is immaculate, well lit, ergonomically designed, and air conditioned. Every worker (or 'associate') is part of a team and team members build camaraderie and avoid boredom by rotating jobs every two hours, moving through all eighteen assembly jobs in a few days.

Setex's American managers, however, are not as positive when they talk about their Japanese bosses and use of Japanese work practices. The American managers particularly complain about Setex's decision processes, the lack of feedback from their Japanese superiors, cross-cultural communication barriers, and the long hours the Japanese executives expect their American managers to put in.

The U.S. managers say they are not allowed to make decisions or fully use their talents. The Japanese approach to decision making – shared consensus building – frustrates American managers who are used to individual responsibility and recognition. Aggressive, ambitious Americans often feel out of place.

American managers complain about a lack of feedback from their Japanese bosses. Even when their work is outstanding, some managers contend they are not promoted simply because they are not Japanese.

Communication presents another problem. Language differences, for example, hinder mutual understanding. The English spoken by the Japanese is sometimes difficult for the Americans to understand. And Japanese terminology often confuses Americans. For instance, one American manager asked, "What difference it makes whether you call a worker hourly or an associate?" But to the Japanese it matters! Add to the fact that the Japanese bosses often talk among themselves in Japanese and fax messages back and forth to Japan in their native language. As a result, non-Japanese-speaking Americans begin to feel left out of the loop.

The Japanese managers come from a culture that stresses company teamwork, harmony, and consensus. They see the workplace as an extended family. As such, they expect the American managers to place the company ahead of their personal lives. While Americans typically look forward to time-off with their families, the Japanese spend long hours after work socializing together and piling up years of unused vacation time. Setex's managers find it hard to adjust to jobs that seem to consume their entire lives.

Discussion Questions

1. Why are American managers feeling aggrieved particularly when American workers appear to be quite happy? Do you agree with their reasons?
2. Does it really matter if the workers are called hourly workers or 'associates'? Why are the Japanese insisting on it?
3. What should the Japanese do to improve the situation?
4. What should the Americans do to improve the situation?

3.7 HOFSTEDE'S FRAMEWORK OF CULTURAL DIFFERENCES

An important study of cultural differences was made by Geert Hofstede of the Netherlands. He found in his study that all people were mentally programmed at three levels.

1. **Universal Level:** Almost all people in the world are mentally programmed to a considerable extent in the same way. They are stimulated by hunger, thirst, anger, pain and pleasure, affection for children and attraction towards the opposite sex in almost the same way.
2. **Collective Level:** This kind of mental programming is shared with some, but not with all people. It is common to people belonging to a certain group or category. The best way to recognise this commonality is to find how it is different from people belonging to other groups or categories. It can be seen in the language in which people express themselves, the degree of respect they show to elders, the physical distance they maintain from other people in order to feel comfortable, the way they carry out basic human activities like eating, marrying, and the ceremonials surrounding them, and so on.
3. **Individual Level:** As we all know, not even identical twins raised together are programmed exactly alike. Due to this there exists a wide range of alternative behaviour patterns within the same collective culture.

Hofstede studied 1,60,000 employees of IBM subsidiaries in 60 countries. He did it twice to eliminate all specific contamination. He discovered that national cultures have a profound effect on work-related values and attitudes. He saw highly significant differences in behaviour and attitudes of managers from different countries, even though they worked in the same multinational company. He also discovered that these differences did not change over time and that they were more due to national differences than due to age, gender or position.

Cultures vary on following dimensions, although subcultures and individuals variations exist. He found that cultures basically differ from each other in following dimensions:

- Individualism vs. Collectivism
- Power Distance (high power distance vs. low power distance)
- Uncertainty Avoidance
- Career Success vs. Quality of Life (also called masculine vs. feminine)
- Confucian Dynamism

These dimensions are used as a tool to compare cultures. In the following paragraphs we will explain the above dimensions:

Individualism vs. Collectivism: Individualism pertains to societies in which the ties between individuals are loose. Collectivism as its opposite pertains to societies in which people from birth onwards are integrated into strong, cohesive in-groups.

People in a culture characterised by individualism, tend to put their careers before their organisations and usually assess how situations will affect them personally. People in a culture dominated by collectivism tend to place organisation needs before their own needs. Canada, New Zealand, Netherlands, U.K., U.S.A. are some of the countries characterised by individualism. Collectivism is said to dominate in India, Japan, Germany, Peru, Columbia, Greece, Mexico, Pakistan, and Singapore. India and Japan are characterised by a high level of collectivism.

Japan has a collective culture and they strongly feel that the behaviour, and even the beliefs, of members of any group should be determined by the will of that group. North Americans, on the other hand, are individualists and believe that every individual can behave in the way he chooses to, subject only to the laws of the land. Individualism is measured by the degree to which individuals in society prefer to act as individuals rather than as a group. All emphasis is on the individual. The individual is personally accountable for his actions. If he fails he takes the responsibility; if he succeeds he takes the credit.

Self-respect in individualistic societies is based on the achievements of the individual who is expected to provide only for and be concerned with the interest of himself and his immediate family. All his commitments are primarily to himself. It is interesting to note that Asian countries which were traditionally collectivists are also becoming individualistic as they are becoming wealthy, though not as much as Western European countries at the same level of wealth.

Collective societies, on the other hand, believe that group is more important than individual. In a collective culture, social networks are very strong. People clearly distinguish between their own groups and others. Groups have common goals and objectives, not individual goals. Groups are expected to look after their members and also protect them when they are in trouble. In exchange, they owe absolute loyalty to the group. People prefer to work within a group rather than individually. The individual draws his self-respect from the success of the group.

Power Distance: Power distance is defined as “the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed inequally” (Hofstede, 1991).

Power distance refers to the acceptance of the idea by employees that in an organisation people will have different levels of power. In a high-distance culture, boss is supreme and he or she alone can make decisions. Others cannot question but simply follow orders and instructions. In a low-power distance culture, employees accept the boss as long as he or she is right.

Power distance dimension describes the extent to which the society accepts unequal distribution of power. In a high power distance society, people show a lot of respect to those in authority. Managers negotiate with similar ‘titles’ of competing firms. Formal hierarchy is important and indeed necessary for success. The boss is regarded as the ‘expert’. He is always correct and clearly has authority over subordinates. Low-power distance societies play down inequality. Superiors have authority, but they are not feared. Employees can openly disagree with the boss without creating problems.

Norway, Germany, Ireland, Denmark, New Zealand, Austria, and U.S. represent cultures with low-power distance. Brazil, Mexico, Indonesia, Spain, France, Japan, India, and Singapore are examples of societies with a high power distance. Japan and India are known for their high level of power distance. In India, power distance is operated not through the managerial hierarchy but also through the social system of segmentation and stratification. Power distance explains why there is a great interest in the study of leadership in India and Japan.

Here is an interesting story of culture and cultural differences. A high powered Chinese delegation had gone to Canada to negotiate a financial deal with a leading bank. The bank management was anxious to please the delegates and organise a reception in their honour and gave the responsibility to host them to one of their bright young managers. This person took the help of another young manager to make sure that nothing went wrong. They hired a very expensive place, carefully chose the menu, and made the best possible arrangements. After the Chinese arrived, the managers were shocked to see that they were not pleased or comfortable. As soon as the meal was over, instead of staying back they rose and left. The hosts just could not understand what had gone wrong. The differences in power distance in their respective cultures was the culprit. The Chinese have great regard for age and all their senior positions are filled by older people. When they found that their hosts were much younger than them they assumed that they were not managers of an equally high rank and felt insulted. Also, the Chinese are formal and start all such receptions by drinking toasts to each other’s health. The young Canadians, on the other hand, did not go through this social ritual. Further, the Chinese failed to understand clearly who is in authority because they saw there were two hosts and clearly confused them.

Uncertainty Avoidance: Uncertainty avoidance is defined as “the extent to which the members of a culture feel threatened by uncertain or unknown situations” (Hofstede 1991). Extreme uncertainty creates high anxiety. Uncertainty is alleviated by technology, law, religion, and by written and unwritten codes of behaviour.

Life is uncertain. But some societies find it difficult to tolerate uncertainty and ambiguity. Uncertainty and lack of clarity can cause a high degree of stress, nervousness, and aggression in people in these societies. Hofstede describes these societies as high in uncertainty avoidance. Some consequences in management is that people in these societies look for lifetime employment and have low job mobility. Management of change requires a lot of effort.

People in uncertainty avoidance societies believe that the future is uncertain anyway. They are comfortable with uncertainty and handle it with ease and without getting too disturbed. They are more comfortable with taking risks.

This represents the extent to which people accept or avoid feelings of uncertainty. For example, some people thrive on the excitement and stimulation they experience from the prospect of challenges and new opportunities. Other people want predictable and definite futures.

Canada, U.S., Australia, Denmark, Norway, Singapore, and Hong Kong belong to the first category whereas France, Belgium, Peru, Argentina, Italy, Austria, Japan, and Israel are said to possess people who are motivated to avoid uncertainty in their worklines.

Career Success (Masculine) vs. Quality of Life (Feminine): Masculinity pertains to societies in which social gender roles are clearly distinct; femininity pertains to societies in which social gender roles overlap.

Some societies rigidly define men's and women's roles. Their social roles are clearly different from each other. Men are expected to be assertive, tough and focused on the acquisition of money and material things. Women are expected to be modest, tender, and concerned with the quality of life. Hofstede calls them masculine societies.

In some other societies, the quality of life is much more important. They are also called feminine cultures. The sexual roles in these societies are not clearly differentiated. Both men and women are supposed to be modest, tender, and concerned with the quality of life. In this context, femininity refers to the relationship among people, concern for others, and interest in quality of life. Such a society emphasises the well-being of its members, quality of relationships and standard of living.

The degree of masculinity or femininity is seen as the extent to which cultures value qualities like assertiveness and materialism on the one hand and people and quality of life on the other. Masculine societies are characterised by extensive divisions of social roles by sex and the divisions are narrow in feminine societies. Japan, U.S., Austria, India, Germany, and Israel are masculine, whereas Finland, Denmark, Sweden and Norway are feminine societies. The cultural value of masculinity/femininity has an impact on the study of employee well-being and related issues.

Employees expect the organisation to have a high level of concern for their employees and their families and nurture them. One example is to give paid paternal leave to male employees to look after their children. These are diffused societies. Also, managers are expected to show interest in employees' personal lives.

Confucian Dynamism: Hofstede, and Bond at a later period, conducted a survey of Chinese managers and employees and identified a fifth dimension which they called Confucian dynamism. They found these societies to have strong work ethics and commitment to traditional Confucian values. Many attribute the extraordinary success of China to Confucian dynamism.

3.8 GLOBAL FRAMEWORK FOR ASSESSING CULTURES

Hofstede's work is nearly forty years old. In 1993, the Global Leadership and Organisational Behaviour Effectiveness (GLOBE) began updating this research with data from 825 organisations and 62 countries. On the basis of this data, they differentiated cultures on the following dimensions:

1. **Assertiveness:** The extent to which a society encourages people to be tough, confrontational, assertive and competitive versus being modest and tender.
2. **Future orientation:** The extent to which a society encourages and rewards future-oriented behaviour patterns such as planning, investing in the future and delaying gratification.
3. **Gender differentiation:** The extent to which a society maximizes gender role differences.
4. **Uncertainty avoidance:** The degree to which society relies on social norms and procedures to alleviate the unpredictability of future events.
5. **Power distance:** The degree to which members of a society expect power to be unequally shared.
6. **Individualism versus Collectivism:** The degree to which individuals are encouraged by societal institutions to be integrated into groups within organisations and society.
7. **In-group collectivism:** The degree to which society's members take pride in membership in small groups such as their families and circles of close friends, and the organisations where they are employed.
8. **Performance orientation:** The degree to which society encourages and rewards group members for performance improvement and excellence.
9. **Humane orientation:** The degree to which a society encourages and rewards individuals for being fair, altruistic, generous, caring and kind to others.

It should be understood that the GLOBE study is an extension of Hofstede's work, not a substitute. This study confirms that Hofstede's five dimensions are still valid and provides updated measures of where different countries are positioned on each dimension. For example, the US in the 1970s led the world in individualism – today, it is ranked in the middle among countries.

3.9 KLUCKHOHN-STRODTBECK FRAMEWORK

Hofstede's work is magnificent and monumental and of immense help to global managers. But there are other important ways in which cultures differ and here the framework of Kluckhohn and Strodbeck comes to our help. They found that cultures differ across the following six dimensions:

1. **Relationship with the environment:** Societies differ significantly in their approach to nature and external environment. For example, North Americans feel that people can, and should, modify nature to enhance their own well-being. They see nature and the external environment almost as a challenge and spend enormous amounts of money and effort to control nature and feel very frustrated when they have to succumb to the forces of nature.

In domination societies, goal achievement is important because the general belief is that people can and should make a difference. Penalties for failure, therefore, can be severe. In harmony societies, people try to do their best but the belief is that

ultimately everything depends on 'god's will'. Hence, slippages from targets and deviations are expected. Penalties for failure are minimal. In subjugation societies, since everything is in the hands of gods or forces of nature, failure to achieve goals by people is tolerated.

2. **Time oriented:** Time orientation refers to past, present, and future. For instance, in China past-oriented films lead box office sales and more ancient theme the better. On the other hand, films on journey to space lured American film goers. This is because the temporal focus of societies differs considerably in their orientation to the past, present, and future. Past oriented societies believe that plans should be evaluated in terms of their fitness with the customs, traditions and the wisdom of society. They feel that preserving history and past traditions is important and changes should fit with past experience. Future-oriented people justify innovation and change to meet a changing and dynamic world and in terms of future benefits. They have less regard for past customs and traditions. Past, present, and future oriented people can be found in all societies.

In certain societies such as in the US, time is considered as fleeting and scarce. According to them, time is money. In others, time is considered as a 'river' available in large measures. Cultural differences, therefore, explain the relative importance of deadlines, definition of being late, length of assignments, and so on.

An example illustrates the impact of cultural difference. An American company had been given a contract to set up a turnkey project in Bahrain. Due to certain reasons, the project could not be completed within the deadline. The American manager became very nervous. He went to the Bahrainian, profusely apologized and said that the project may not be completed for another six months. An American company in this situation would have sued the contractor for damages worth millions of dollars. The Bahrainian, however, was not at all disturbed. He told the distrust American, 'it is okay. We have lived without this facility for the last five thousand years. Surely we can live without it for another six months'.

3. **Nature of people:** Some societies view people as basically being honest and trustworthy and may prefer a participative style of management. In such societies participative style is possible. There is the well known story of the American who had gone to Cairo on business. He met with an Arab businessman. They liked each other, became good friends and struck a handsome deal. The American was very happy. He immediately called his lawyer, drew a contract and sent it over to the Arab for signing. He waited and waited but the contract was never signed. The problem was that Arabs expect that friends should trust each other. The immediate response of the American sending a contract full of penalty clauses and provisions for arbitration, offended him.

Certain other societies view people with suspicion and distrust. In such societies where people do not trust each other, obviously, a participative style is not possible. They will prefer an autocratic style.

4. **Activity orientation:** An American company operating in a remote Mexican town increased the wages of workers to motivate them to work even harder. The effect was the opposite showing high rate of absenteeism. The reason was that societies like Mexico want to experience life and fulfill their desires. They want to work only as much as needed to enable them to earn just enough to live. Malaysians are also more interested in spending their extra hours with family and friends than in earning more money by working extra hours. Decision making in such societies is likely to be emotional.

Americans dominant orientation, on the other hand is one of 'doing'. They believe in working hard and being rewarded for it. Decision making in such societies is usually rational and pragmatic.

5. **Focus of responsibility:** Some societies believe that responsibility lies with the individuals – be it for performance, for success or for failure. In certain other societies, responsibility lies with the group. Here loyalty, harmony and unity are very important because in their absence the group will not be effective. These societal attitudes also affect management. In societies where responsibility lies with the individual, hiring is based on educational, professional and personal qualities. In group-oriented societies, qualities like compatibility, trustworthiness, and the ability to work with others are equally important. Group decisions, for instance in Japan, take longer because concurrence of members must be taken prior to taking a decision, but here implementation is much faster.

6. **Concept of space:** Some cultures conduct business in public view. In Japan, managers and staff work in the same room. The executives may hold meetings in moderate sized offices or in open areas, with many interruptions from visitors and employees. In the US privacy and offices reflect status. Executives hold important meetings behind closed doors with a secretary screening interruptions. In some cultures there is a blend of the two. In the Middle East, many persons can be present during a meeting.

3.10 WORKFORCE DIVERSITY

Globalisation provided an opportunity to business firms to expand geographically by entering into new markets. This opportunity converted domestic companies into multinational companies and MNCs into transnational companies. Consequently, a new competitive environment has been created. This competitive environment forces the MNCs to compete with domestic companies in the host country, compete with other MNCs in the same country in addition to competing with home country MNCs at home as well as in foreign markets. For example, Coca-Cola competes with Pepsi Cola in the USA, in India and other countries, in addition to competing with domestic companies of India. Work places in MNCs today are highly diversified with the employees of different countries, different age groups, religions, races, ethnic groups, colour and gender. People from various countries and societies bring varied cultures to the workplace in addition to the best talent.

Diversified workforces bring talents, skills, knowledge, expertise, and core competencies and thereby contributing to the competitive advantage of the company. In addition, diversified cultures bring multi-approach to decision making and thereby enhancing the decision making abilities of MNCs. Cultural diversity can be an important source of energy in enhancing organisational effectiveness. However, diversity also becomes a potential source for conflict and 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 minimise the negative aspects of diversity.

The following are the strengths of diversified workforce:

1. 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 workplace that help a company target products and services to a market place that itself is becoming more and more diverse.
2. Diversified workforce brings varied knowledge about the availability of resources in terms of quality, price, and delivery from different countries.
3. Diverse workforce with varied economic backgrounds understands the tastes and preferences of customers of all income brackets.

4. Workforce diversity allows the organisation to be more flexible and adaptable and respond to the environmental demand aptly.
5. Diversified workforce mostly avoids conflicts and disputes at workplace and strives for harmony and congenial relations.
6. Diversity in workforce contributes to the increase in productivity and helps cost-minimisation in all spheres.

The following are the weaknesses of diversified workforce:

1. Cultural diversity when poorly managed can lead to a host of problems such as higher turnover and inter-group conflicts.
2. Diversity in workforce mostly results in misunderstanding caused by perceptual differences.
3. Cultural difference cause the employees to take more time to understand the view points of others causing considerable delay in decision making.
4. Workforce diversity results in communication distortions in terms of language, and psychological and semantic barriers.

In spite of various weaknesses, workforce diversity provides relatively more concrete strengths to an organisation as compared to its weaknesses.

3.11 STRATEGIES FOR MANAGING DIVERSITY

Workforce diversity or cultural diversity can be an important source of energy in enhancing organisational effectiveness. More and more organisations are realising the virtues of such diversity, but surprisingly, little do they know how to manage it.

Strategies for managing workforce diversity or cultural diversity or five fold:

1. 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. The individual strategies include:

- **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 understand their behavioural patterns.
- **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. 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.
- **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.
- **Approach of no-winning over others' culture:** Individual employees should not adopt 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 'trade-off over the cultural issues'. Rather, one should adjust himself/herself or adjust according to others culture, unless the organisational policies/rules/customs or otherwise.

- **Clear communication:** Communication is a prime factor in cultural diversity. Therefore, individual strategies should concentrate on the language, translation, using appropriate words, while communicating under the situations of cultural diversity.

2. Group Strategies

Group of employees belonging 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:** Expatriates from the same nationality meet, discuss and share the information and knowledge with regard to the culture of the host country and from other nationalities. They also share their experiences of cultural conflicts as well as cultural harmony.
- **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 adopted to prevent as well as to solve them.
- **Cultural exchange through socialization programmes:** Expatriate groups of various nationals as well as host country nationals organise informal and formal socialisation programme. These programmes, encourage the participants to speak about their cultures and listen to the others' cultural practices with an open mind.

3. Organisational Strategies

Organisations can formulate effective strategies to manage cultural diversity at the workplace, in addition to the strategies adopted by individuals and groups.

Organisational strategies include:

- **Recruitment and selection strategies:** MNCs follow different approaches in recruiting and selecting the prospective employees viz., ethnocentric, polycentric, regionocentric and geocentric. These approaches have their own advantages and disadvantages.
- **Organisational policies and practices:** The cultural policies of an organisation normally includes matters relating to recruitment/ selection from different cultures; payment of salary and benefits; work distribution; training and development; and employee relations. Policy implementation should be equal and fair rather than favouring certain cultures and disfavouring others.
- **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.
- **Formal socialization programmes:** MNCs organise socialisation programmes in the form of outings, company annual days, and special celebration, wherein cultural events and programmes of cultural understanding and exchange are widely organised.
- **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.

- **Communication teams:** Information sharing, consultation, negotiations, bargaining, networking, and working together need effective communication. Communication and consultation across cultural groups helps different groups and individuals to adapt themselves to organisational culture.
- **Special benefits to women and old people:** Women, old people and physically disadvantaged people though they broadly belong to the same cultural group, they bring slightly different cultural values and norms in many respects. Therefore, MNCs are expected to provide special benefits and concessions to them.

4. National Strategies

National strategies towards management of cultural diversity include:

- **Legislative approach towards equal employment opportunities:** Various governments enacted laws forcing the companies to employ minority and disadvantaged communities.
- **Efforts of the cultural associations/societies:** Various cultural associations and societies like Indo-American cultural society, Indo-German Cultural Society in India spread 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 carrying out the cultural values of the foreign countries to their home countries.

5. International Strategies

International strategies include:

- **Economic unions and regional integrations:** Growth of economic unions like European Union and regional integrations like North American Free Trade Agreement and Asia Specific Economic Cooperation formulate policies for free flow of human resources among the member countries. This, in turn, results in spread of cultures of member countries within the region.
- **Efforts of international trade organisations and financial institutions:** International trade organisations and financial institutions like World Trade Organization, International Monetary Fund and World Bank aim at the growth of the world economies through a number of efforts including free movement of human resources across the countries. In addition, these institutions conduct training programmes in technical skills and cultural aspects, thus contributing to easing the management of cultural diversity.

Box 3

Hewlett Packard's Diversity Management Programme

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 programmes, the work environment and the firm's promotional opportunities. The following steps were taken by the company to resolve these problems:

1. It conducted diversity training sessions for all its managers.
2. It informed its managers that they would be held accountable for achieving the firm's diversity objectives, which include new hiring policies, new approaches to employee development, and efforts to remove artificial barriers to success.
3. It established employee development and mentoring programmes to help a broader range of employees move up in the organisation.
4. It formed employee support groups, such as the Black Managers' Group to address the needs of specific groups of employees.

Source: Caudron S., *Training Can Damage Diversity Efforts*, Personnel Journal, April 1993, pp. 50-62.

3.12 CULTURAL SHOCK

According to Anthropologists, cultural shock involves anxiety and doubt caused by an overload of unfamiliar expectations and social cues.

Because of differences in cultures, an employee posted outside his or her home country will experience confusion, alienation, disorientation, and emotional upheaval. This is known as culture shock. An executive transferred from India to Korea, for example, would experience anxiety because of alien culture, foreign language, unaccustomed climate and unfamiliar food habits. But the anxiety is less when he or she is posted to Singapore where one comes across large number of Indians and hotels run by Indians.

Many employees of multinational corporations do not know how to deal with a cultural adjustment process. This experience can be painful and devastating. At its extreme, it can prevent growth and self-actualisation. When an individual's psychological security is threatened, the consequences may not be healthy for him, his family, or the organisation he represents.

Increasing numbers of multinational organisations, inter-company interactions among them, and cultural adjustment problems, are a compelling reason for cross-cultural training. The importance of cross-cultural sensitivity, empathy, and ability to communicate with people from different cultures are of great concern world-wide. Cross-cultural orientation and training programmes teach individuals belonging to one culture ways of interacting effectively with minimal interpersonal misunderstanding in another culture. Training is a worthwhile investment in terms of public relations and goodwill for the company.

There is some consensus among cross-cultural trainers that certain basic areas need to be dealt with:

1. Self-awareness
2. Awareness of one's culture
3. Belief and values
4. Host country area information
5. Culture and the natives' expectations
6. The expatriate's purpose for going abroad
7. The extent of responsibility and risk in performance.

3.13 BEHAVIOUR VARIATIONS ACROSS CULTURES

In a global village, human resource management and organisational behaviour are expected to play crucial role in the process of internationalisation of business. Globalisation has its impact on people management. The management is required to cope with problems of alien cultures, unfamiliar laws, languages, attitudes, practices, competitors, managerial styles, work ethics, and so on. Human resource function such as hiring, maintaining and remunerating must acquire global perspective. To face this challenge, the management must be flexible and proactive. By helping the best qualified people execute the company's strategy on a global scale, the management can become a source of competitive advantage for the company.

We are aware of cross-cultural and cross-national differences in individual behaviour, managerial attitudes, values and beliefs. Behaviour variation can be studied in terms of individual differences, managerial responses, motivation, rewards, leadership, power conflict, communication, environment and technology across cultures.

Managerial response: We have seen how individual responses vary across cultures. Just like individual responses, managerial responses also vary across cultures. Specific behaviours depend upon attitudes managers hold about employees. Managerial responses are shaped by the cultures of the land. Managers in Japan, for instance, strongly believe that a manager should be able to answer any question he or she is asked. On the other hand, Swedish managers have the least concern for knowing all the answers. In France, the manager's role is thought to be that of an expert, whereas in the U.S. the manager is viewed as a problem solver.

Managerial behaviour is rapidly changing, particularly among European managers. In general, these managers are becoming better educated, career-oriented, more willing to work co-operatively with labour, more willing to delegate, and more cosmopolitan.

Even if people were to follow the same basic steps when making decisions, there exists a widespread difference in the way people from various cultures may go about doing so.

There exist cultural differences with respect to who is expected to make decisions. In Sweden, for example, it is traditional for employees at all levels to be involved in the decisions affecting them. However, in Pakistan, where autocratic decision making is expected, it would be considered a sign of weakness for a manager to consult his subordinate about a decision.

Another cultural difference in decision making has to do with the amount of time taken to make a decision. For example, in the U.S. one mark of a good decision maker is that he or she is "decisive", and make it without delay. On the other hand, in some other cultures time urgency is downplayed. In Egypt, for example, the more important the matter, the more time the decision maker is expected to take in reaching a decision.

Motivation: Motivation theories and approaches are mainly developed in America. Nevertheless, some of the theories and techniques do apply to other societies as well. For example, equity theory has takers in Korea, Japan and the U.S. Maslow's theory too has found itself applicable but with changes in the needs priorities. In Greece and Japan, for example, security needs are more important, whereas social needs tend to dominate in Norway and Sweden.

Employees in different cultures perceive work differently. For Indians, work is not just an economic reward, but it also seems to confer status and dignity. But for Americans, work is equated just with economic rewards.

Rewards: Employees' expectations from their jobs depend on respective cultures. Naturally, rewards also vary across cultures. For example, job security is more valued in some cultures than in others. In certain societies like the U.S. for example, individual rewards like recognition, promotion and merit pay increase are more valued. On the other hand, in Japan, employees place a higher value on group rewards and recognition. It is essential that a manager must understand the varying expectations and rewards of employees and provide them accordingly.

Leadership: Cultural factors influence the effectiveness of specific leadership actions, and determine varying leadership styles in different countries. In a society with a high-power-distance, employees routinely expect the leader to make decisions, solve problems, and assign tasks. In such a culture, any effort by the leader to promote participative style of management will be opposed. On the other hand, under conditions of low-power-distance any directive behaviour by the leader will not be tolerated. Employees expect empowerment from the leader.

We must note that leaders play different roles in various cultures. For example, in Europe, managers go beyond the boundaries of formal managerial roles. In China, leaders are expected to remain formal and function within the formal roles assigned

to them. Whereas in Japan, the role of a leader is more of a facilitator to group performance and less as control mechanism.

Power and conflict: Power and conflict are a part of organisational life in certain countries. For instance, in the United States power and conflict are accepted and attempts are even made in organisations to create and sustain moderate level of conflict. Such a level of conflict is perceived to be beneficial for organisational effectiveness. In Japan, attempts to increase one's power are frowned upon, and instigating or promoting conflict is considered unseemly. Instead, the focus is on conformity, group harmony, and the like.

Communication: Different words may mean different things to different people. In addition to different vocabularies, cross-cultural communication is made difficult by the fact that in different languages even the same word can mean different things.

Communication problems will arise because of alien language and unfamiliar body gestures. In international perspective, two issues namely, language and coordination are relevant.

Some words are understood differently in different countries. An example is that Japanese managers rarely come out with a direct "no" to another's request. The manner in which they avoid saying "no" is to say "yes" and then follow the affirmative answer with a detailed explanation which in effect means "no". General Motors produced a car called the Nova, which did not sell well in Italy where "no va" means "does not go". In China, Coco-Cola means "bite the head of a dead tadpole".

Even nonverbal communication varies across cultures. Colours and body language, for example, can convey quite a different message in one culture than in another. Thus, managers should be forewarned that they cannot take everything for granted while dealing with people from another culture. They must acquire familiarity with verbal and nonverbal languages of that culture.

Communication across countries has another dimension namely, the need for coordination. For example, when an Indian executive talks to his or her counterpart in Germany, he must not only contend with differences in language, but also with a time difference of several hours.

Studies suggest that even when both persons in an international transaction know each other's language, communication may still suffer. In addition to the most basic verbal communication skills, non-verbal communication may create serious misunderstandings. Even though we share many values, beliefs and attitudes, we misinterpret and misunderstand each other. This is so even when we are dealing with our own people. The problem simply becomes accentuated when we deal with persons of foreign origin.

In brief, we are left with three cross-cultural communication options: (a) stick to one's own language, (b) rely on translators, or (c) learn the local language.

Environment: Environment in certain countries is stable and predictable, whereas in other societies it is dynamic and turbulent. The economies of Japan, Sweden and the U.S., for example, are fairly stable. Although competitive forces within them vary, they generally remain strong free-market economies.

Environment also varies in terms of its complexity. The Japanese environment, though stable, is highly complex. Our country too has a complex environment reflecting, as it were, unity in diversity.

Technology: More and more companies are becoming international and to cope with the demands of varying cultures, these firms adopt different organisational structures, and technology. International conglomerates have international headquarters that coordinate the activities of businesses scattered across the globe.

Two aspects of technology have their impact on organisational effectiveness. They are: (a) variations in available technology, and (b) variations in attitudes towards technology. With regard to availability of technology, there are wide variations across cultures. Some countries are highly backward and unable to absorb imported technology. Attitudes towards technology also vary across cultures. Western countries generally have a positive attitude towards technology, but most Asian countries tend to view applied knowledge with suspicion.

3.14 SUMMARY

- Culture is learnt from the environment and interaction at workplace and social spheres.
- Culture is made up of assumptions, values, beliefs and attitudes set by the society based on the changing environment.
- Hofstede found in his study that all people were mentally programmed at three levels: universal level, collective level, and individual level.
- Cultural insensitivity can result in missed opportunities, lost business, and ruffled feelings on both sides.
- A thorough cultural orientation for expatriates and their families is a good investment in their future success. It is also a worthwhile investment in terms of public relations and goodwill for the company.
- Cultural diversity has certain strengths and weaknesses. More and more organisations, however, are realising the virtues of cultural diversity, but surprisingly, little do they know how to manage it.
- Strategies for managing cultural diversity include individual strategies, group strategies, organisational strategies, national strategies, and international strategies.

3.15 KEY TERMS

- **Culture:** The way we do things here. Refers to underlying values, beliefs, and code of practice that makes a community what it is.
- **Organisational culture:** Refers to the set of values, beliefs, and behavioural patterns that forms the core identity of an organisation.
- **Cross-cultural communication:** Communication not only on different national cultures but also on the basis of race, religion, educational and economic backgrounds.
- **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.
- **Parochialism:** An expectation from others that they will readily adopt to their standards of behaviour.
- **Individualism:** High concern for achievement and personal growth.
- **Collectivism:** Concern for group harmony.
- **Masculinity:** Pertains to societies in which social gender roles are clearly distinct.
- **Feminity:** Pertains to societies in which social gender roles overlap.
- **Uncertainty avoidance:** The extent to which the members of a culture feel threatened by uncertain or unknown situations.
- **Power distance:** Denotes the relationship between the superior and subordinates.

3.16 SELF-ASSESSMENT QUESTIONS

1. What is culture? What are the various factors that contribute to the formation of culture?
2. Why do cultures differ from each other?
3. "All societies are mentally programmed at three levels". Discuss.
4. What are the strengths and weaknesses of workforce diversity?
5. What are the individual strategies for managing workforce diversity?
6. What are the organisational strategies for managing workforce diversity?
7. What are the national and international strategies for managing workforce diversity?

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UNIT 4 STRATEGIC HUMAN RESOURCE MANAGEMENT IN INTERNATIONAL CONTEXT

Objectives

After going through this unit, you should be able to:

- Understand the meaning of strategy and strategic management.
- Analyse the process of international strategic management.
- Explain different strategies of MNCs and relevant human resource strategies.
- Understand various organisational strategies and relevant human resource strategies.

Structure

- 4.1 Introduction
- 4.2 Features of Global Strategic Management
- 4.3 International Business Strategies
- 4.4 International Strategic Management Process
- 4.5 MNCs Business Strategies and HRM Strategies
- 4.6 Collaborative Strategies
- 4.7 Organisational And Human Resource Strategies
- 4.8 Summary
- 4.9 Key Terms
- 4.10 Self-Assessment Questions
- 4.11 References
- 4.12 Further Readings

4.1 INTRODUCTION

International human resource management policies and practices need to be aligned with the strategies of MNCs as well as domestic companies employing expatriates. Similarly, MNCs and domestic companies employing expatriates modify the organisational strategies in tune with the availability of human resources as well as human resource costs and other considerations. Thus, MNCs' domestic organisations' strategies should be formulated by considering the international labour market conditions and the human resource strategies are to be aligned with the MNCs and domestic company's strategies.

4.2 FEATURES OF GLOBAL STRATEGIC MANAGEMENT

Strategic management of the global companies has peculiar features as compared to those of a national company. These include:

- International strategic management is concerned with the flow of goods and services across the countries. It deals with the opportunities, threats, challenges and risks in various markets in the world.

- Global strategic management is an integrated strategic management of a global company.
- Strategies of the global corporations are formulated by analysing the global environment. In some cases, strategies are formulated for the cluster of markets or countries.
- Global strategic management is concerned with the impact of the present decision on the future. Management has to assess the impact of strategic decisions on the future product path, future markets, and so on.
- Global strategic management is mostly action-oriented. All the managers are the active players in this process.
- Global strategic management is a continuous and dynamic management. The changing business environment across the globe influences and interacts with the global corporation.
- Global strategic management process takes into account the strategies and reaction of their global competitors.
- Global corporations operate in their home country as well as in various foreign countries. Hence, the global strategic management process integrates both domestic operations and operations in the foreign countries.
- Global strategic management designs the organisational structure based on the divisionalised geographical structure.
- Global strategic management mostly depends upon the cultural differences among the countries, differences in the laws of the land, policies of the government, and political environments in the various countries.
- Global strategic management is more critical on control front mainly due to unique factors influencing the international business.

4.3 INTERNATIONAL BUSINESS STRATEGIES

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.

Multidomestic strategy: International business firms adapting this strategy customised products and marketing strategies to the host country requirements and environment. The international business firms established their production, marketing, finance and R&D facilities in various host countries.

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.

Transnational strategy: International business firms adapting this strategy pursue low cost leadership-cum-local responsive or customisation strategy due to intensive global competition. Firms can achieve this strategy by exploiting experienced-based economies and location based economies.

Christopher Bartlett and Sumantra Ghoshal emphasise that the transfer of experienced based economies and skills should flow not only from 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

4.4 INTERNATIONAL STRATEGIC MANAGEMENT PROCESS

The international strategic management process starts with the organisational analysis of the international company in order to know its strengths and weaknesses. The next step is the analysis of international environmental factors in order to know the opportunities and threats provided by the environment. Goals of the international company along with the SWOT analysis leads to the formulation of alternative strategies. The strategist analyses the alternatives and selects the best strategy for implementation.

International strategic management process includes:

1. Analysis of existing mission and goals: Most of the companies initially start as domestic firms and transform into international companies at the later stage. Further, it goes on adding new products to its portfolio and/or adding new countries to the existing portfolio. The company finds that the existing mission statement would be redundant over a period of time. Then, the global company prefers to reformulate the existing mission statement. The global company also changes its goals depending upon the changes in the environment.

2. Organisational analysis of a global business firm: The organisational analysis requires a detailed study of the following aspects of the global company and its subsidiaries are marketing departments:

Organisation structure: The analysis of organisation structure includes flat or tall organisation, team structure or individual based structure, and geographical or strategic business unit structure. This analysis requires identification of strengths and weaknesses of the company with regard to the structure.

Marketing: The marketing analysis includes the analysis of four Ps viz., product, price, promotion, and place. The global company analyses each of these factors in detail and identifies strengths and weaknesses of each.

Production: The production analysis includes sourcing of materials, location of plants, logistics spread, plant layouts, sourcing the human resources, quality considerations, past experience, inventory levels, and so on. The strategist has to analyse each factor and identify the strengths and weaknesses of each.

Finance: Important finance factors include sources of finance, capital structure, earning per share and the like. The strategist has to identify the strengths and weaknesses for each of the finance factors.

Human resources: The human resource factors include the sourcing of manpower, the skill of employees, cultural compatibility of the employees with the cultures of various countries, cost of employees, and the like. The strategist of a global company analyses each of the human resource areas and identifies its strengths and weaknesses.

After identifying the strengths and weaknesses of the global company, the strategist has to analyse the international environment in order to find out the opportunities provided and the threats posed by the international environment.

3. Analysis of international environment: Strategic management of a global organisation requires an understanding and analysis of international business environment in order to assess opportunities and threats. The strategist formulates

alternative strategies to exploit the opportunities provided by the environment by using company strengths. For example, Sony formulated the strategy of low priced televisions to enter the expanding Indian middle class.

International business environment factors include:

Political-legal factors: All countries have their own political systems and legal framework that affect business. These laws may provide an opportunity or pose a threat to the businesses going abroad.

Economic factors: Growing economic activities, increasing gross national product and per capita income are indicators for opportunities for business. High inflation rates and devaluation of currencies pose threats to international business.

Technological factors: Technology plays a major role in global business. Technology is one of the main bases for joint-ventures particularly in the developing world. Manufacturing companies in technologically advanced countries locate their production plants in developing countries where cheap labour and raw materials are available.

Social factors: Every country has its own distinctive culture, i.e., generally accepted values, traditions, and patterns of behaviour. Different social and cultural factors of different countries will affect MNCs. Difference in language and social norms will affect the marketing mix for a particular country. Product presentation, packaging, distribution channels, pricing and advertising must be attuned to each culture. Religious belief may also make a significant impact on a country's business practice. Cross-cultural differences in norms and values require modifications in managerial behaviours. Social norms that are not well understood by outsiders often constrain business transactions. For instance, Japanese business executives expect their clients or suppliers to interact socially with them after working hours. In fact, these social settings are requirements for serious business relationships.

The companies should evaluate their strengths, weaknesses, opportunities, and threats to international environment before making a final decision about going global. The companies can use the following questions in evaluating their strengths and weaknesses:

Box 1
International Swot Analysis – Evaluation

1. Do the companies' have a strong market position in the respective countries in which they operate?
2. Do the companies' quality of products/services compare favourably with those of their respective world competitors?
3. Do the companies' have technological advantage in the world regions where they will operate their major businesses?
4. Do the companies' have a strong brand reputation in the countries in which they sell their products or services?
5. Do the companies' managers and employees have more talent than those of their world competitors?
6. Do the companies' financial profile compare favourably with that of the industry?
7. Are the companies' consistently more profitable than their world rivals?
8. Are the companies' product and process research and development efforts likely to produce better results than their competitors?
9. Are the companies' various world operations subject to unionisation?

Source: P. Wright, *Doing Business in Islamic Markets*, Harvard Business Review, Vol. 59, No. 1, Jan-Feb 1981, pp. 34-40

4. Formulation of alternative corporate level strategies: Formulation of corporate level alternative strategies of a global business are different from those of a domestic company. The global company first decides the country to enter and then formulates the corporate level strategies. The strategies which can be formulated are broadly classified as corporate level strategies and business unit level strategies. The companies, before deciding which markets to go, should know the risks involved in a nation's market. There are many risks involved in going internationally including shifting borders, unstable governments, foreign exchange problems, corruption, and technological pirating.

5. Formulation of alternative business unit level strategies: The global companies formulate business unit level strategies based on the corporate level strategies, organisational strengths and environmental opportunities. The important strategies at this level include:

(a) **Low cost leadership strategy:** The global companies plan to reduce the cost of production, cost of marketing and so on by locating the firms close to the raw materials or close to the markets, by adopting latest technology. The strategy of low cost leadership provides the global company two options viz., fix the price at a lower level compared to that of the competitors or to increase the profit margin or both.

(b) **Focus or niche strategy:** Transnational companies formulate specific strategies for specific markets whereas international and multinational corporations apply the same strategy in a number of countries. The transnational companies are expected to think globally and act locally. Thus, they become global companies. They adopt the focus strategy for each local market in order to compete with the domestic companies.

(c) **Differentiation strategy:** Transnational companies mostly adopt the differentiation strategy. They differentiate the product policies, price policies, service policies from country to country and form one customer group to other customer group.

In addition to these strategies, the business unit level strategies of global business include both offensive and defensive strategies.

6. Selection of the best among the alternative strategies: The global company after formulating the alternative strategies has to select the best among the alternative strategies. The strategists analyse the alternative strategies, rank them, and select the best among them.

7. Strategy implementation: After selecting the best strategy, the global company implements it in order to achieve its goals. The factors of strategy implementation include: (a) partner selection; (b) organisational structure; (c) behavioural implementation; (d) marketing implementation; (e) production implementation; (f) financial implementation; and (g) human resource implementation

8. Strategy evaluation and control: The strategic management process may not be implemented as planned due to changes in environmental factors. Therefore, the global company has to evaluate its process and control measures. The activities in this regard include: (a) establishing the standards; (b) measuring the performance; (c) comparing the performance; (d) observing the deviations; and (e) taking corrective steps.

4.5 MNCS BUSINESS STRATEGIES AND HRM STRATEGIES

Some companies operate in a number of countries while some companies operate in fewer countries with a deeper commitment. The firms can choose to enter the market with high market attractiveness, high competitive advantage, and lower risk.

After deciding the country to enter, the company has to decide the best mode of entry. There are different modes of entry.

- i) **Indirect exporting:** Indirect exporting means exporting through independent intermediaries to various countries. The various types of intermediaries are: domestic based exporter; domestic-based export agent; co-operative organisation; and export-management company. Indirect exports cost less to the producers and the producers can concentrate on manufacturing as the export arrangements are taken care by the intermediaries.
- ii) **Direct exporting:** Companies depend on indirect marketing during the early stage of their exports. Eventually, they may decide to export directly in order to get more benefits and economies of scale. In this, the investment and risk will be greater as compared to the indirect exports.

The companies at this stage mostly follow ethnocentric approach for its human resource activities. They depute home/parent country nationals on short-term assignment to host country, and develop network and business relations with various market intermediaries in the host country.

- iii) **Licensing:** Under this approach, the licensor licenses a foreign company to use its production process, trademark, patent, trade secret or other item value for a fee or royalty. The manufacturer enters a foreign market with a little risk. The foreign company gains the advantage of production expertise or technology, or a well-known product without having to start from scratch. Coca-Cola enters different foreign markets by licensing bottlers around the globe. It supplies them syrup, and train the personnel of the foreign companies in producing and selling the product.

International human resource management under this strategy would be the responsibility of the licensee company. MNCs under licensing strategy mostly follow geocentric approach. The licensee company in the foreign country formulate most of the human resource management strategies.

- iv) **Franchising:** Franchising is a form of licensing. The Franchisor can exercise more control over the franchisee as compared to licensee. International franchising is growing at a fast rate. The franchisor provides to the franchisee certain services like trade marks; operating systems; product reputations; and continuous support systems such as advertising, employee training, reservation services, and quality assurance programmes.

International human resource management under this strategy would be joint responsibility of the franchisor company and the franchisee company. MNCs under franchising strategy mostly follow geocentric approach.

- v) **Direct investment:** Direct investment is the ultimate way of going international. The direct investments include involvement of a company in ownership and control of foreign-based assembly or manufacturing or service facilities. The foreign company can: (a) buy part of the local manufacturing facilities; or (b) buy full interest in local company; or (c) build its own facilities on its own. The company after producing in a foreign country can meet the customer needs in that country and export to other countries. This strategy helps the company to widen the market and get distinct advantages.

International human resource management under this strategy takes a different mode as compared to that of other strategies. MNCs under this strategy follow ethnocentric approach during the initial period. At the later stage, MNCs slowly shift to regiocentric approach, polycentric, and geocentric approach.

- vi) **Acquisitions:** A foreign company rather than starting the business from scratch, may acquire an already established company in the host country. The foreign company may buy the established company in its entirety rather than on a piecemeal basis. International human resource management under this strategy is relatively a complex task due to the involvement of all alliance partners in the process of strategy formulation and implementation. All partner companies jointly formulate and implement concerned strategies. However, the major partner plays a dominant role in crafting and implementing strategies.
- vii) **Management contracts:** Large MNCs may have a large amount of management talent at its disposal. Management contracts offer a means through which an MNC may use part of its profits and personnel to assist a firm in a host country for a specified fee and period of time. MNCs earn some income from their investment and continue operations until local management is trained and developed. In case of management contracting strategy, the contractor follows ethnocentric approach for selecting key managers and appoints the HCNs for other jobs. However, it can also be on the basis of agreement between the two companies.
- viii) **Joint ventures:** Foreign investor and local manufacturer join together to form a joint venture. The joint venture involves technological transfer, market sharing, and investment sharing. The foreign investor and local producer share ownership and control. Joint venture is an appropriate strategy for technological, economic, and political reasons. Some joint ventures are successful and run for many years.
- ix) **Turnkey operations:** Turnkey operations are typically contracts for the construction of operating facilities in exchange for a fee. The facilities are transferred to the host country or the firm concerned when they are complete. The foreign company supplies some of its own equipment for the project. In case of turnkey projects, MNCs mostly follow ethnocentric approach for all key positions including managerial positions.

4.6 COLLABORATIVE STRATEGIES

International business firms either perform their business operations on their own or collaborate with other companies. In fact, companies, in some situations collaborate with their competitors also. Their collaboration choices are influenced by several factors including physical and economic factors, scale of operations, make and buy decisions, societal factors, and competitive environment. Motives for collaborative arrangements for international business include gain location, specific assets, diversity, and so on. Some of the motives for collaborative strategies are common for both domestic business and international business. These include:

Spread and reduced costs: It is economical to buy the products from other specialist companies when the quantity required is small and uneconomical to produce. Companies with less capacities can outsource the capacities from the companies with larger capacities. This arrangement helps both the companies to reduce and spread the costs and the startup and waiting time. This facility also reduces the level of investment of small companies.

Specialise in core competencies: Companies have certain core competencies and as such they perform the activities concerning core competencies more efficiently as compared to other activities.

Vertical and horizontal integration: Vertical and horizontal linkages or integrations allow the companies to concentrate on the core competencies, operate on small scale, and emphasise as a portion of the supply chain.

Learn from other companies: Collaborative strategies in the form of joint ventures enable the companies to learn about partner's technology, production methods, and systems and markets.

Sharing capacities: Companies can jointly share their production, service, marketing, human resource and other capacities in order to operate on optimum scale.

4.7 ORGANISATIONAL AND HUMAN RESOURCE STRATEGIES

These strategies include:

Stability strategy: The stability strategies include maintenance of status quo and sustainable growth. Companies with stability strategy maintain the similar pattern of production, sales and profit. Appropriate HR strategies in this regard include motivation and retention of skilled employees. Job rotation, job enrichment and empowerment are appropriate HR practices to motivate the frustrated employees.

Growth strategies: Organisations select the growth strategies to increase their profits, sales and/or market share, reduce cost of production per unit. One of the growth strategies is internal growth. The appropriate HR strategies in this regard include training the existing employees and promote them to the higher levels, employee the new candidates at the lower level, and outsourcing some employees.

Concentration strategy: These strategies are achieved through concentrating the firm's efforts on a limited combination of customer groups, customer functions, and alternate technologies. Dabur India follows this strategy and concentrates on certain customer functions. Bata India follows the strategy of outsourcing in producing shoes targeted to rich income brackets. The relevant HR strategies in this regard are training and developing employees, and outsourcing specialised skills.

Mergers and acquisitions strategy: Firms prefer to go through mergers and acquisitions. "A merger is a combination of two or more businesses in which one acquires the assets and liabilities of the other in exchange for stock or cash or both. Companies are dissolved and assets and liabilities are combined and a new stock is issued."²² Examples of merger include merger of Reliance Petroleum with Reliance Industries. Acquisition/takeover is defined as "the attempt of one firm to acquire ownership over another firm against the wishes of the latter's management."²³ But in practice, takeover can be hostile or friendly. Though there is conceptual difference between mergers and acquisitions, their effect regarding human resource strategies is the same.

HR managers play a significant role in mergers and acquisitions strategy. They help top management in assessing pension, provident fund, and other liabilities; labour contracts of the proposed target company; and skill, attitude and culture base of the target company. Other strategies are integrating the two wage structures, benefit programmes, seniority and so on.

Horizontal integration: Horizontal integration strategy aims at related diversification. For example, Coca Cola diversified to produce mineral water 'kinley'. L&T constructions diversified to produce cement. Relevant human resource strategies are to train and develop the existing employees to provide the skills necessary in the area of new business. Other strategies are employing the new candidates for the diversified business, formulation of performance appraisal schemes, compensation and industrial relations schemes, slightly different from those of the existing business.

Conglomerate diversification: Conglomerate diversification is diversification into unrelated activity to the original business of the company. For example, Gujarat Gas Limited created another business unit, namely, Gujarat Finance Company Ltd. In such cases, the diversified HRM functions are altogether different from those of the existing company.

Joint ventures: Joint ventures are partnerships in which two or more firms carry out a specific project. Joint ventures can be temporary, complete or partial, for example, Maruti and Suzuki, Modi and Xerox. As in case of mergers and acquisitions, this strategy also brings cultural diversity as a major HR issue.

Retrenchment strategies: The third major class of strategic alternatives available to a firm is retrenchment strategies. Retrenchment strategies include turnaround strategies, captive company strategy, disinvestment strategy, and liquidation strategy. For example, companies like HCL, Visakha Steel Plant of SAIL adopted turnaround strategies. They employed HR strategies like open communication, employee counseling, reduction in the labour cost by enhancing labour productivity, attitudinal change, and so on.

4.8 SUMMARY

- Strategy is the unified, comprehensive, and integrated plan designed to ensure that the basic objectives of the enterprise are achieved.
- International human resource management policies and practices need to be aligned with the strategies of MNCs.
- The basic steps of strategic process include formulation of vision, mission and objectives of the MNC and formulation of alternative strategies; selecting the best strategy; and strategy implementation, strategic evaluation and control.
- The international business strategies include exporting, licensing, franchising, and foreign direct investment.
- Domestic companies enter international business through mergers and acquisitions.
- Two or more firms join together to create a new business entity that is legally separate and distinct from its parents.
- These result in functional alliances which include production alliances, marketing alliances, finance alliances, human resource alliances, and research and development alliances.

4.9 KEY TERMS

- **Mission:** An enduring statement of the purpose for which, or reason why, an organisation exists. It comprises statements of shared purposes and shared values.
- **Vision:** Statement of purpose and philosophy that empowers and guides everyone throughout the company. It is a picture of what the organisation will be like at some point in the future.
- **Values:** Basic assumptions held by a group of people about themselves, others, and the world.
- **Strategy:** A unified, comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise are achieved.

- **Strategic management:** A continuous cross-functional process aimed at keeping an organisation as a whole with appropriate matching to its environment.
- **Strategic alliance:** An agreement between two or more competitive international business firms in order to serve a global market.
- **Greenfield strategy:** Starting of the operations of a company from scratch in a foreign market.
- **Competitive advantage:** Any feature of a business firm that enables it to earn a high return on investment despite counter pressure from competitors.
- **Acquisition:** When a firm buys another firm.
- **Merger:** Acquisition in which all assets and liabilities are absorbed by the buyer.
- **Takeover:** General term referring to transfer of control of a firm from one group of shareholders to another group of shareholders.

4.10 SELF-ASSESSMENT QUESTIONS

1. Define the term 'strategy'. What is strategic management?
2. What is strategic management process?
3. What are the human resource strategies of MNCs, when they opt for export strategies?
4. What type of human resource strategies do you formulate that opt for licensing and franchising strategies to enter foreign markets?
5. What type of human resource strategies do you formulate for an MNC that prefer business process outsourcing?
6. What type of human resource strategies do the MNCs use when they prefer contract manufacturing and management contracting?
7. Discuss various organisational human resource strategies.

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