

# INTERNATIONAL HUMAN RESOURCE MANAGEMENT



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“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

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*“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

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Block

**2****HRM PRACTICES IN INTERNATIONAL CONTEXT****Unit 5****Staffing for International Assignments 5****Unit 6****Training and Development in International Context 16****Unit 7****International Performance Management 32****Unit 8****International Compensation Management 48**

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March 2015, (Reprint)

© Indra Gandhi National Open University, 2013

ISBN: 978-81-266-6431-3

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*Further information on the Indira Gandhi National Open University courses may be obtained from The University's Office at Maidan Garhi, New Delhi-110 068*

**Printed and Published on behalf of Indira Gandhi National Open University, New Delhi by Registrar MPDD, IGNOU.**

Laser typeset by : Nath Graphics, 1/21, Sarvapriya Vihar, New Delhi-110016

Printed at : Hi-Tech Graphics, D-8/2, Basement, Okhla Industrial Area, Phase-II, New Delhi-110020

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## **BLOCK 2 HRM PRACTICES IN INTERNATIONAL CONTEXT**

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This Block comprises of four units:

- Unit 5 deals with the importance of staffing from international context. It also explains approaches and methods of staffing from international perspective.
- Unit 6 explains about the relevance and importance of training for international Assigns. It also gives an overview about setting of Global mind-set.
- Unit 7 discusses how Performance Management has to be different from Domestic Performance Management. Finally, explains a model which could be used for evaluating expatriates.
- Unit 8 explains the Policies of Compensation Management from Multinational context. It also explains the tax related issues related to Compensation Management.



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# UNIT 5 STAFFING FOR INTERNATIONAL ASSIGNMENTS

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## Objectives

After completion of this unit you will be able to:

- Distinguish between recruitment and selection.
- Understand why staffing in an international context is of crucial importance.
- Understand the different approaches to staffing in MNCs.
- Understand the different recruitment methods employed by International HR managers.
- Understand what it takes to be a successful 'expatriate'.

## Structure

- 5.1 Introduction
- 5.2 Recruitment and selection
- 5.3 Importance of international assignments
- 5.5 International recruitment and selection
- 5.5 Different approaches to the staffing of MNCs
- 5.6 Factors affecting the PCN-HCN-TCN mix
- 5.7 Influence of cultural factors
- 5.8 Culture Shock
- 5.9 Recruitment methods
- 5.10 Expatriates
- 5.11 Reasons for expatriate failures and what the recruiters can do
- 5.12 Summary
- 5.13 Self-assessment questions
- 5.14 Further readings

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## 5.1 INTRODUCTION

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The success of international operations of a Multinational Company depends to a great extent on its policies of International Human Resources Management. One of the main functions of an International HR Manager is the recruitment and selection of personnel for international assignments. The reasons behind the failures of international managers have been the topic of extensive research for quite some time. In this unit we will have a look at the points to be borne in mind while recruiting international managers, the different methods of international recruitment and the reasons for 'expatriate failures'.

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## 5.2 RECRUITMENT AND SELECTION

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Recruitment involves searching for and obtaining potential job candidates in sufficient numbers and quality so that the organization can select the most appropriate people to

fill its job needs. (Dowling and Schuler, 1990). Based on the organizational objectives, job descriptions are prepared and then candidates are recruited for selecting the most suitable persons for the job. Selection is a multilevel process of screening the candidates to choose the most suitable persons for the vacant posts.

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### 5.3 IMPORTANCE OF INTERNATIONAL ASSIGNMENTS

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International assignments become relevant in the context of multinational corporations. Hence let us recall from what you may have studied in other units, what a 'multinational corporation' is:

A **multinational corporation (MNC)** is a *corporation* or an enterprise that manages *production* or delivers *services* in more than one country. The *International Labour Organization (ILO)* has defined an MNC as a corporation that has its management headquarters in one country, known as the *home country*, and operates in several other countries, known as *host countries*.

The first modern multinational corporation is generally thought to be the *Dutch East India Company*. Nowadays many corporations have offices, branches or manufacturing plants in different countries from where their original and main headquarters is located. (Source: Wikipedia)

General Motors, one of the biggest MNC in the world employs 2,05,000 people in every major region of the world and does business in some 150 countries. For several years, they have sold more cars outside the United States than within its borders (Source: [www.gm.com](http://www.gm.com)). This makes the overseas operations more important than or at least as important as the domestic operations of General Motors. This is applicable to most other multinational corporations, albeit to varying extents.

The quality of the human resource in a company is responsible to a great extent for the success or the failure of the company. In a multinational corporation, the performance of individual units (subsidiaries in foreign countries) is directly related to the capabilities of the people who man the operations of the unit. Hence the recruitment and selection process in multinational corporations, as also the training and development of the selected candidates, are very crucial for the success of the corporations. But no amount of training and development can yield the desired results if the choice of the candidate has gone awry. Incompetent employees, who are the results of flawed HR processes, cannot help the organization realize its goals. Subsidiaries of even those companies which are technologically superior to others may fail owing to wrong recruitment and selection policies. Since such failures can be very costly for multinational corporations, more and more importance is being given these days to the selection of candidates for international assignments. The decision is important at a personal level too for the candidate who is picked for the international assignment.

The trend towards globalization and the size of the market in growing economies like India and China reinforces the significance of international assignments. Moreover, there is a growing recognition that the success of global business depends most critically on recruiting the desired quality of senior management in MNCs (Shuler, 2000)

## 5.4 INTERNATIONAL RECRUITMENT AND SELECTION

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The basic objective of recruitment and selection is to take in people so as to get the job done. In other words, when there is a job to be performed and the performance of the said job requires the performer to possess certain skills and aptitudes, and there is a short supply of employees possessing the required skill sets, the company can either bring in people with the required capabilities from the country where the headquarters is situated (parent country) or it can recruit from the local labour market (host country). Alternatively, it can also recruit candidates from a country other than the parent or host country, ie. a third country. Depending on the staffing strategy of the organization, Parent Country Nationals (PCNs), Host Country Nationals (HCNs) or Third Country Nationals (TCNs) or a suitable combination of the three classes of employees will be recruited. Practically, most companies go for a mixed staffing approach to tackle the complex staffing issues in international situations. It is the global strategy of the company and the local conditions, ie. the host country environment that together determines the head quarters – subsidiary relationship and the staffing policy.

## 5.5 DIFFERENT APPROACHES TO THE STAFFING OF MNCs

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Perlmutter(1969) classified firms into four distinct categories based on their attitude towards the geographic sourcing of their management teams:

- a) **Ethnocentric approach:** All key positions in the subsidiary are filled up by PCNs. This approach is used in the early stages of internationalizing especially when it is perceived that HCNs are not sufficiently qualified to take up the job. This approach paves the way for Head quarters control and co-ordination and adequate communication. But the PCNs employed in the subsidiaries, or expatriates as they are generally called, may make mistakes during the initial stages of adaptation and this can prove to be costly. Another drawback of this approach is that it robs the HCNs of their legitimate promotion opportunities.
- b) **Polycentric:** the Head quarter is staffed by PCNs and foreign subsidiaries are primarily staffed by the HCNs. This method is less costly than the ethnocentric approach. It eliminates language barriers between the managers and the customers and the public at large, but new barriers get erected between the managers at the Head quarters and the Subsidiaries. The barriers relate to language, nationality, value system etc. It also denies opportunities for PCNs to take up international assignments and gain valuable exposure which can propel their careers forward at high speed.
- c) **Geocentric:** The HQ and the subsidiary are staffed by the most suitable employees, without taking into account the nationality of the employees. In this approach, the MNC is able to utilize the best talent available because of the absence of petty considerations. But some employees may try to resist this approach because of the transfers involved from one country to another. Also, an employee who fares well in one country, say his home country, and is thus perceived to be having high capabilities may not be able to perform as well in a foreign country. Certain countries, especially the developed nations, impose restrictions on free movement of labour to protect the interests of their citizens. They require a lot of documentation before a foreign national is given a work permit.

- d) **Regiocentric:** In this approach, recruitment and selection are done on a regional basis. Transfers are also restricted to countries within the region. For example, a manager working in the Asia-Pacific region for a US MNC may be transferred to another country in the same region but not to Europe.

**Activity 1**

Meet the HR manager of an MNC in your city and find out their staffing approach.

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## 5.6 FACTORS AFFECTING THE PCN-HCN-TCN MIX

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The country in which the Head Quarters is situated determines to a certain extent the PCN-HCN-TCN mix of the subsidiary. Generally speaking, Japanese companies staff their subsidiaries with a high number of PCNs, especially at the top levels, for control purposes. US companies are believed to be at the other extreme and you will find a high proportion of HCNs in the subsidiaries of US firms. The MNCs of other countries fall somewhere in between these two extremes. However, it may be remembered that what is mentioned above is generalization of results obtained by individual researchers and that comprehensive data of staffing patterns of MNCs is not readily available. It may also be borne in mind that there can be many exceptions to the generalized views of the researchers.

The availability of skilled manpower in the host country also has a role in determining the staffing pattern of the subsidiary. If there is a shortage of talent in the host country, the MNC will have to send its PCN managers to head the subsidiary operations atleast in the initial stages. An alternative, which is viable especially at the later stages, is to train the HCNs for jobs for which the skills required are of a general nature. This will reduce the cost considerably because of the reduction in number of PCNs. Also it will save PCNs from undertaking what is perceived to be a 'difficult assignment', the difficulties being those related to cultural adjustment and quality of life.

The cultural distance between the home country and host country is an important factor that determines the number of PCNs employed in the host country subsidiary. It is quite natural for the Head quarters to distrust the HCNs because of the cultural differences and this may induce the staffing of key positions by PCNs. But the cultural differences make the foreign assignments difficult or unattractive for the PCNs. The way out of this dilemma is to recruit HCNs and give them opportunity for absorbing the corporate culture by posting them at the Head Quarters. This process is called 'Inpatriation' and is a way to reduce the risks associated with expatriate failures.

It is generally observed that more the age of the subsidiary, the lesser the number of PCNs employed in it. One reason behind this may be the deliberate loosening of control by the Head Quarters once the subsidiary gets established in the foreign soil. Another reason may be the success of the subsidiary in recruiting and training HCNs over time.

## 5.7 INFLUENCE OF CULTURAL FACTORS

'Culture' is defined by Hofstede as "the collective programming of the mind which distinguishes the members of one category of people from those of the other". The national culture of one country may be vastly different from that of another. There are two dimensions of this aspect which need to be taken care of during recruitment and selection. They are:

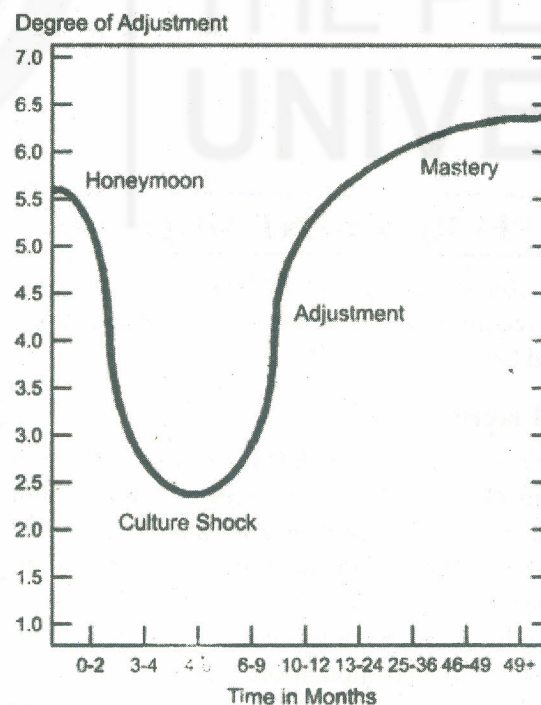
- a) When the selection is done on a global scale, the cultural differences of the candidates may influence the results and conclusions of the selection process itself, if the recruiters are not aware about the cultural background of the candidate.
- b) At the selection stage, careful consideration is to be given to the culture shock that the selected candidate is expected to experience in the country of work.

To illustrate point (a) above, let us consider the non verbal behaviors which are considered appropriate/inappropriate in two cultures: Western and Asian. In western culture a firm handshake and direct eye contact by the candidate during an interview is considered to be an indication of his confidence and straightforwardness. In Asian culture, this behavior will be considered inappropriate. A weak handshake and an infrequent eye contact indicates low self esteem and low trustworthiness in Western culture, but in Asian culture such behavior marks the candidate's respect for the interviewer. Hence, it is easy for the interviewer to make wrong conclusions about the self-confidence, trustworthiness etc. of the candidates, if he is not aware about the cultural background of the candidates.

Point (b) above is described in detail in the next section.

## 5.8 CULTURE SHOCK

Culture shock is experienced in 5 phases and is said to follow a U curve proposed by Oberg:



In the honeymoon stage the individual is fascinated and charmed by the new culture. Only the brighter side of the new social life gets noticed by the individual in this stage.

The second stage is the actual 'Culture shock' stage in which the individual starts experiencing the negative aspects of the new culture. He starts seeing things in a more realistic way and invariably perceives a vast gulf between his culture and ideals and those of the host country. The language barrier too causes problems at this stage and the individual and his family members become frustrated, irritated, anxious and disappointed.

When 'Culture shock' becomes intolerable, some managers may return to their parent country. This is termed as expatriate failure and is dealt with in detail in a later section. Those who chose to continue in the foreign country will undergo an 'adjustment' process. In this stage, the individual gets accustomed to the new way of life and his knowledge about the new culture is increased. Things that appeared quite strange in the beginning will start appearing to be normal as time passes on.

In the 'Mastery' stage, the individual integrates himself into the new culture. He accepts the good things that the new culture has to offer and even adopts some of the habits of the people of the foreign country. This stage is also called 'Biculturalism' stage.

Let's look at two examples of cultural differences causing confusion and repulsion, one example from a work situation and another from social life:

- For an American, time is of utmost importance since it is a scarce resource for him. Meeting deadlines and being on time for a meeting are firm commitments as far as an American is concerned. But for an Arab, being asked to meet a deadline is almost an insult! In their opinion, important tasks take their own time for completion and the very fact that they are asked to schedule the task to meet a deadline shows that the task is an unimportant one!
- An Indian going to Thailand may feel at home initially when he sees the road side eateries but he and his family members will soon find out that the delicacies which are served in the eateries and restaurants are prepared using various insects like cockroaches.

The recruiters should take special care to see that not only the selected candidate but also his family members are willing to face the culture shock and that they have the necessary abilities to overcome the shock and move on to the adjustment and finally to the mastery stage.

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## 5.9 RECRUITMENT METHODS

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The recruitment methods can be broadly classified into two: Internal recruitment and external recruitment. The relative merits and demerits of the two methods are discussed below:

### **Internal recruitment**

In Internal recruitment which is the obvious choice and perhaps the more effective of the two methods, the expatriate is chosen from within the ranks of the organization. The main source of effectiveness of this method is the familiarity between the organization and the candidate. The organization knows exactly what skills the candidate possesses and is able to precisely evaluate the candidate's abilities. This will make the recruitment less risky and is more likely to lead to a good fit between the person and the position. Moreover, the candidate's family situation is known to the employer atleast to a certain extent. This aspect is very important in the case of recruitment for international assignments since family support is found to be a very crucial factor in determining the success or failure of an expatriate.

The candidate, in turn, is familiar with the organizational culture and organizational goals. Hence he knows exactly what is expected of him and is in a position to pre-empt his effectiveness as an expatriate manager. A 1982 study by Torbiorn has shown that, on an average an internally recruited expatriate takes up to six months to adjust to the new work situation whereas an externally recruited expatriate takes over nine months to do so.

Further, internal recruitment is more cost effective than external recruitment.

### **External recruitment**

The most popular methods for external recruitment of expatriates are discussed below:

#### **Head hunting**

A head hunter is a third party recruiter who acts as an independent contact between its client companies and the candidates it recruits for a position (Source: Wikipedia). International firms expect head hunters to provide an integrated and seamless global service with no cross-border barriers.

#### **Cross-national advertising**

Advertising agencies think and act in a global way to find the desired candidates from across the globe. The advertisers can use any medium, but in general the popularity of press as a media of advertisement is on the decrease. Alternative methods like hoardings and posters are gaining popularity. While undertaking cross-national advertising, cultural differences between nations have to be borne in mind for the campaign to succeed.

#### **Internet recruitment**

Internet recruitment or e-recruitment is the process of personnel recruitment using electronic resources, in particular the *internet*. It is one of the most effective ways of recruitment in an international context, given the wide and unimaginable geographical reach of the internet. Technology can be used to advertise vacancies, deal with applications and select candidates. Advertising vacancies on the internet is the most common way of utilizing the power and reach of the internet. Advertisements can be placed on the company's own website or on a third party website run by a recruitment agency. Such third party websites which are also called commercial job boards are large databases of job vacancies. The application forms can be filled up online. Alternatively the candidates can email the application form/Resume to the recruiter who can download the same for further processing. An extension of internet recruitment is the conducting of online tests for screening and selecting the candidates. (Adapted from [www.cipd.co.uk](http://www.cipd.co.uk), the website of Chartered Institute of Personnel and Development)

Advantages of Internet recruitment:

- Broader source and low cost.
- Faster recruitment.
- Easy and efficient handling of high volume job applications.
- Access to tailored information (Candidates can make use of self assessment questionnaires to see if they fit the job)
- Provides the image of an up-to-date and modern organization.

Disadvantages of Internet recruitment:

- Quality of applications can be low.
- People outside the target group may also apply for the job.
- Even now, the internet is not the first choice of job seekers, especially in developing nations. Hence a number of potential candidates may fall outside the ambit of internet recruitment.
- The recruitment process becomes impersonal.
- Puts off the candidates if the website is badly designed or technical problems are frequent.
- If the search engine ranking of a company's website is much below that of its competitor's, the job advertisement may never reach the intended user.

**International graduate programme:** Graduates are groomed for an international management career by companies employing this method. Retention rates are low in the case of International graduate programmes.

**Recruitment of HCN managers:** MNCs generally staff their subsidiaries with HCNs except in the case of executives in the topmost positions. If the company is following a polycentric approach in staffing, even the top positions will be manned by HCNs. This makes it imperative for the MNC to recruit HCN managers. Some of the difficulties faced by MNCs while recruiting HCN managers have been enumerated as follows by Scullion (1995, 2001):

- Lack of image in foreign market.
- Lack of knowledge of local labour markets.
- Ignorance of the local education system.
- Lack of knowledge of the status of qualifications.
- Language and cultural problems at interviews.
- Trying to transfer recruitment methods which work well in the home country to foreign countries.
- Trying to recruit to a formal set of criteria when flexibility is required.

To overcome the above challenges, many MNCs relax the recruitment criteria while head hunting in host countries. The image of an MNC as a good trainer of HCNs helps it to recruit candidates with high potential, especially in emerging markets. Disclosing, at least partially, the localization strategies of the MNC so as to enable high potential managers who want to be hired to map out their career paths inside the organization, can also help.

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## 5.10 EXPATRIATES

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An **expatriate** (in abbreviated form, **expat**) is a person temporarily or permanently residing in a country and culture other than that of the person's upbringing or legal residence. In its broadest sense, an expatriate is any person living in a different country from where he or she is a citizen. In common usage, the term is often used in the context of professionals sent abroad by their companies, as opposed to locally hired staff (who can also be foreigners). Thus it can be seen that the PCNs who work in a subsidiary of the MNC are called expatriates. Generally speaking, skilled professionals working in another country are described as expatriates, whereas a manual labourer who has moved to another country to earn more money might be labelled an 'immigrant'. (Source: Wikipedia)

MNCs use expatriates to staff their international assignments mainly for the following three reasons:

- Qualified HCNs may not be available in the host country, especially in the case of developing economies. The expatriate is a 'position-filler' in this case.
- The MNC may want to develop its managers by sending them on foreign assignments, typically a short term one. In this case, the expatriate may be chosen for the job even if local talent is available.
- The MNC may be aiming at Organizational Development through transfer of knowledge between Head Quarters and Subsidiary and between Subsidiaries.

The first and the third reasons are behind demand driven assignments and the second is behind learning driven assignments. Demand driven assignments serve to transfer knowledge, control new subsidiaries, solve problems and fill positions. It is teaching driven, where the expatriate tries to change the subsidiary mind set to fit the Head Quarters strategy. In contrast, in the case of learning driven assignments, the expats try to imbibe the subsidiary culture and adapt themselves.

30 to 50 % of expatriate assignments fail (Source: [www.expatsworld.co.za](http://www.expatsworld.co.za)). Here failure is defined as not only returning home early but also sitting out their assignments ineffectively.

But generally, expatriate failure is defined in terms of the percentage who return prematurely, without completing their assignment. Such failures has more to do with the selection of expatriates than with the subsequent HR processes. The selected candidate should not only fit the job, but he should fit the country and more broadly speaking, he should be fit to be an expatriate. The expatriate should possess the following skills/characteristics some of which overlaps each other, in order to be successful:

- a) Cultural sensitivity.
- b) Concern for business ethics.
- c) Business acumen.
- d) Communication skill.
- e) Persistence.
- f) Flexibility and adaptability
- g) International exposure.
- h) Tolerance for ambiguity.
- i) Low goal/task orientation.
- j) Open mindedness.
- k) Tolerance to differences.
- l) Non judgementalness.
- m) Empathy.
- n) Flexibility.
- o) Curiosity.
- p) Warmth in relationships.
- q) Motivation.
- r) Self reliance.
- s) Ability to handle stress.

(Adapted from [www.expatsworld.co.za](http://www.expatsworld.co.za))

**Activity 2**

Meet an expatriate working in any MNC in your city and find out how he adapted to the new environment and what were the difficulties faced by him.

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**5.11 REASONS FOR EXPATRIATE FAILURES AND  
WHAT THE RECRUITERS CAN DO**

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The failure to select the right person is considered the most important reason for expatriate failure. Expatriate failures cost dearly to the organization and to the expatriate. The direct costs to the company relates mainly to the money spent on the expatriate ie. Salary, allowances paid for relocating to a foreign country, amount spent on supporting the expatriate's family abroad, expenses incurred for training the expatriate etc. More worrying for the company are the indirect costs which include loss of opportunity and market share and loss of reputation in the host country.

The failed expatriate's self esteem will slip and the debacle is almost certain to negatively affect his career growth. Cases of expatriate failures at top most levels can even make it to newspaper headlines and this can be particularly damaging for the manager concerned.

Expatriate failures can be averted or at least minimized by focusing on a wide range of criteria rather than on technical skills alone during selection of expatriates. Technical skills are important because the expatriate manager may have to take important decisions all by himself since he is far from the head quarters and will have to own the responsibility for the results of the decisions. But, as important as technical skills of the candidates are certain other considerations like the ability of the expatriate to adjust to a foreign culture/environment, ability of the spouse to adjust, emotional maturity, interest in an expatriate assignment, willingness to accept the possibly low quality of life if the assignment is in a developing country, ability to speak the foreign language, satisfaction of the expatriate with the additional benefits provided for going on an expatriate assignment etc. Although it is difficult for the recruiter to accurately evaluate a candidate before sending him on an expatriate assignment, it is quite obvious that factoring in the above mentioned criteria while developing a broad policy on selection of expatriates will be helpful. For example, until recently the views and attitudes of the spouse of the candidate being considered for an expatriate assignment was not at all considered important. In fact, the 'spouse' was nowhere in the picture. Consequently, as many researchers have pointed out, dissatisfaction of spouse and related family problems are being increasingly recognized as a prominent, if not the most prominent, reason behind expatriate failures. So MNCs have started giving due credit to the opinion of the spouses and are interviewing the spouses before selecting a candidate for an expatriate assignment.

Recruiters have to ensure that the selected candidate is a person who can withstand the 'culture shock' which he may experience in the host country. The culture shock is experienced when the initial honeymoon period is over. In the beginning the expatriate may be thrilled to live and work in a new country but soon the reality starts to sink in. The differences in the host country culture and that of his own result in a culture shock and the expatriate has to adjust himself at this juncture if he has to be

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## 5.12 SUMMARY

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The four staffing approaches postulated by Perlmutter are Ethnocentric, Polycentric, Geocentric and Regiocentric approaches. The PCN-HCN-TCN mix varies from one approach to another. Most MNCs follow a mixed approach to staffing to realize organizational objectives. The success of their international operations largely depends on the success of their staffing policies and on how well they are implemented. Expatriate successes and failures are highly correlated to organizational success and failure as far as international operations are concerned. Recruitment methods employed by MNCs can be classified into two: Internal recruitment and External recruitment. The different methods of external recruitment are Head hunting, Cross-national advertising, Internet recruitment and International graduate programs.

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## 5.13 SELF-ASSESSMENT QUESTIONS

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- 1) What are the relative merits and demerits of the different approaches to the staffing of MNCs?
- 2) What are the different recruitment methods employed by MNCs?
- 3) Who is an expatriate? What are the qualities required to become a successful expatriate?
- 4) What are the main reasons for expatriate failure? What can be done at the recruitment stage to minimize expatriate failures?

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## 5.14 FURTHER READINGS

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# UNIT 6 TRAINING AND DEVELOPMENT IN INTERNATIONAL CONTEXT

## Objectives

This chapter aims at—

- To increase the cultural sensitivity of employees who relocate and to prepare them to conduct business with colleagues from other cultures.
- To learn how to avoid misunderstandings based on cultural differences.
- To learn how to communicate verbally and non-verbally with colleagues in other cultures.
- To understand the role of learning and communication styles in work, everyday living, and telling situations, and how to work effectively with people with differing styles.
- To understand the historical, political, educational, and economic background of the host country well enough to interpret current news, events and economic policies and social problems.
- To learn to anticipate the factors leading to culture shock and how to manage it, for oneself and one's family.
- Role-based training inputs for ensuring due performance of the jobs and achievement of business goals in lien with the company's expectations.

## Structure

- 6.1 Introduction
- 6.2 Role of Training & Development
- 6.3 Preparation And Training For International Assignees
- 6.4 Topics To Facilitate The Ever Crucial Adjustment Process
- 6.5 Components Of Effective Pre-Departure Training Programs
- 6.6 Developing Staff Through International Assignments
- 6.7 Examples Of Training And Development Initiatives In Global Firms
- 6.8 Designing Effective Cross-Cultural Training (CCT) Programmes
- 1.9 Recent Trends In Training And Development For The Global Workforce
- 6.10 Evaluation of e-CCT
- 6.11 Characteristics Of A Global Mind-Set
- 6.12 Global Trends In Training And Development
- 6.13 Summary
- 6.14 Self-Assessment Questions
- 6.15 Further Readings

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## 6.1 INTRODUCTION

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- i. Fast, changing competency (skill & knowledge & attitude) of Human Resource.
- ii. Fast, Mobility of Human Resources across the Globe.

These necessitate continuous Training & Development so that skills are updated, behavioral patterns are fine tuned and the employees are familiarized with different cultures. Training & Development helps to develop a global mind-set, to inculcate global leadership style and to enable managing of diversities.

Training aims to improve employees' current work skills and behavior, whereas development aims to increase abilities in relation to some future position or job. Now, we examine how the international assignment is a vehicle for both training and development, as reflected in the reasons why international assignments continue to play a strategic role in international business operations.

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## 6.2 ROLE OF TRAINING AND DEVELOPMENT

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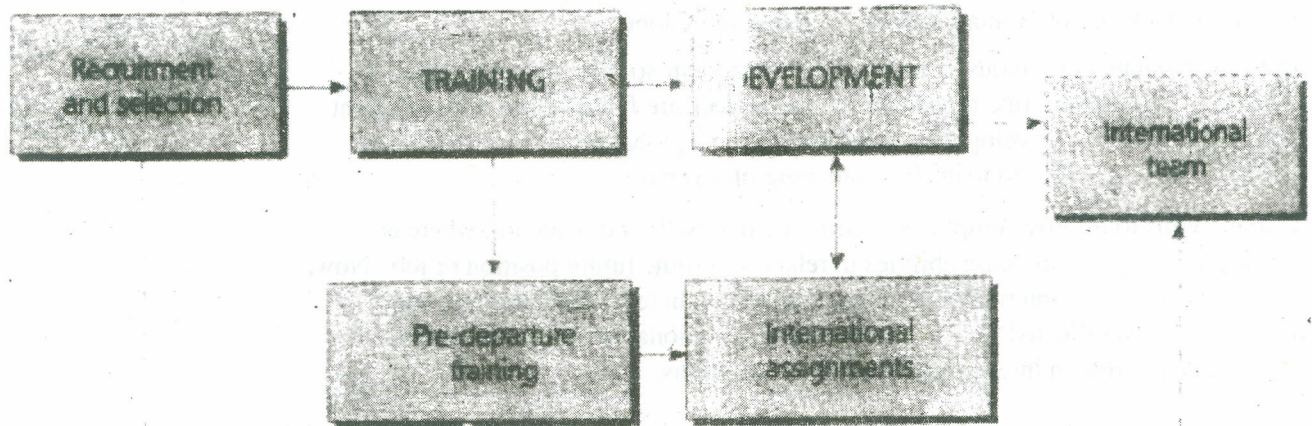
Training in preparing and supporting personnel on international assignments is an important process. The following aspects need to be considered before one is sent on International assignment.

- The role of training in supporting expatriate adjustment and on-assignment performance.
- Components of effective pre-departure training programs such as cultural awareness, preliminary visits and language skills. Relocation assistance and training for trainers are also addressed.
- The effectiveness of pre-departure training.
- The developmental aspect of international assignments and its relation to internal career paths.
- Training and developing international management teams.

Training and development activities are used by multinational companies to improve the quality of their human resources. Many multinationals have established their own 'universities' or 'schools'. Motorola, McDonald's and Disney universities are good examples of these in-house training centers. Several European, Japanese and Korean firms have similar arrangements, such as the Lufthansa Business School and the Ericsson Management Institute.

The international assignment in itself is an important training and development tool:

- The expatriates are expected to assist in transfer of knowledge and competence between various units. In fact, this is one of the major objectives of international assignments. The expatriates train and develop the HCNs (Host Country Nationals), irrespective of whether such training is explicitly mentioned in the job description or not. Thus, Expatriates are Trainers in their own right.
- Expatriates are generally responsible for implementing new systems and procedures in response to the various challenges faced by the organization. As part of the implementation process and subsequently too, they train others on how to adapt to the new system.
- Expatriate assignments are another form of job rotation and thus help the employees to gain a broader perspective. It assists in developing capable people who form the required pool of global operators.



Source: Dowling, 2007.

Therefore, the way in which the multinational anticipates and provides suitable training for international assignments is an important first step. This is reflected in the growth of interest in, and provision of, pre-departure training to prepare expatriates and accompanying family members for the international assignment.

### 6.3 PREPARATION AND TRAINING FOR INTERNATIONAL ASSIGNEES

#### Establishing and maintaining relationships

- Internal within the firm
- External with the community
- Family
- Host government
- Home government
- Headquarters

#### Preparation objectives

- Review terms and conditions of assignment
- Increase cultural awareness
- Increase knowledge of host country
- Impart working knowledge of the foreign language
- Increase conflict management skills
- Minimize re-entry problems

#### Forms of training

- Pre-departure
  - Cultural orientation
  - Area study
  - Language instruction
  - Cross-cultural T-group
- Behavioral simulations
- Case studies

- Post-arrival training
  - Cultural orientation and training
  - Inter-group problem solving
- Re-entry training and orientation

#### Training outcomes

- Knowledge about cultural, political, economic, , business, legal, and social factors of the host country
- Awareness of the needs and expectations of the different parties interested in the international operation
- Awareness of the problems of family relationships in the host country

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## 6.4 TOPICS TO FACILITATE THE EVER CRUCIAL ADJUSTMENT PROCESS

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- Intercultural business skills (e.g., negotiation styles in different countries and cultures).
- Culture shock management (e.g., what to expect and how to deal with the stress of adaptation)
- Lifestyle adjustment (e.g., how to deal with different shopping and transportation systems and the different availability of familiar foods and entertainment).
- Host-country daily living issues (e.g., any unfamiliar problems with water or electricity).
- Local customs and etiquette (e.g., what to wear and different behavior patterns and gestures for men and women).
- Area studies (e.g., the political and religious environment and the local geography).
- Repatriation planning (e.g., how to stay in touch with the home office and how to identify an appropriate assignment prior to repatriating back home).
- Language learning strategies, both before leaving for the new assignment as well as after arrival.

Many firms divide their preparation of IAs into two broad categories: counseling and training. The counseling component deals primarily with the mechanics of a move abroad while the training tries to develop skills and sensitivities to national and cultural issues that will better enable the IA and family to adapt to and enjoy their new situation. Increasingly, firms are realizing how important such preparation is to the international business success of their IAs. Novartis, the Switzerland-based global pharmaceutical firm, does a particularly good job of this type of preparation. The types of topics covered by its normal counseling and training sessions for people going on a foreign assignment include the following:

- *Counseling*: Compensation, benefits, and taxes; travel; shipping and storage of household goods; housing and property management; local transportation; allowances; vacations and home leaves; language training and orientation; and children's educational expenses and options.
- *Training*: local customs, politics, religions, attitudes; local laws; safety, health, and security; cultural sensitivity, food, water and so on; and background briefing on company: history, policies, individuals.

And lastly, another firm recommends that a thorough preparation program should include all of the following:

- A pre-visit to the new site.
- Language training.
- Intensive area study.
- Country-specific handbooks that include both country and company facts and where to get additional information.
- In-company counseling on issues such as taxes, legal matters, compensation, the move, and the like.
- Meeting with repatriates who have recently returned home from the location to which the IA is moving.
- Local sponsorship and assistance for arrival and orientation to the new locale and assignment.

The above measures will help to improve performance levels, avoid bad experiences due to maladjustment to the maximum extent possible and minimize premature returns.

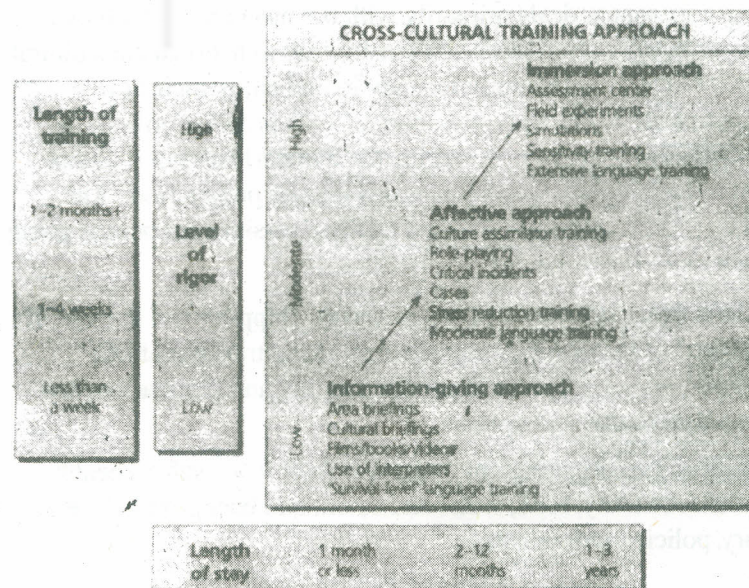
## 6.5 COMPONENTS OF EFFECTIVE PRE-DEPARTURE TRAINING PROGRAMS

Studies indicate that the essential components of pre-departure training programs that contribute to a smooth transition to a foreign location include cultural awareness training, preliminary visits, language instruction and assistance with practical, day-to-day matter. We will look at each of these in turn.

### Cultural awareness programs

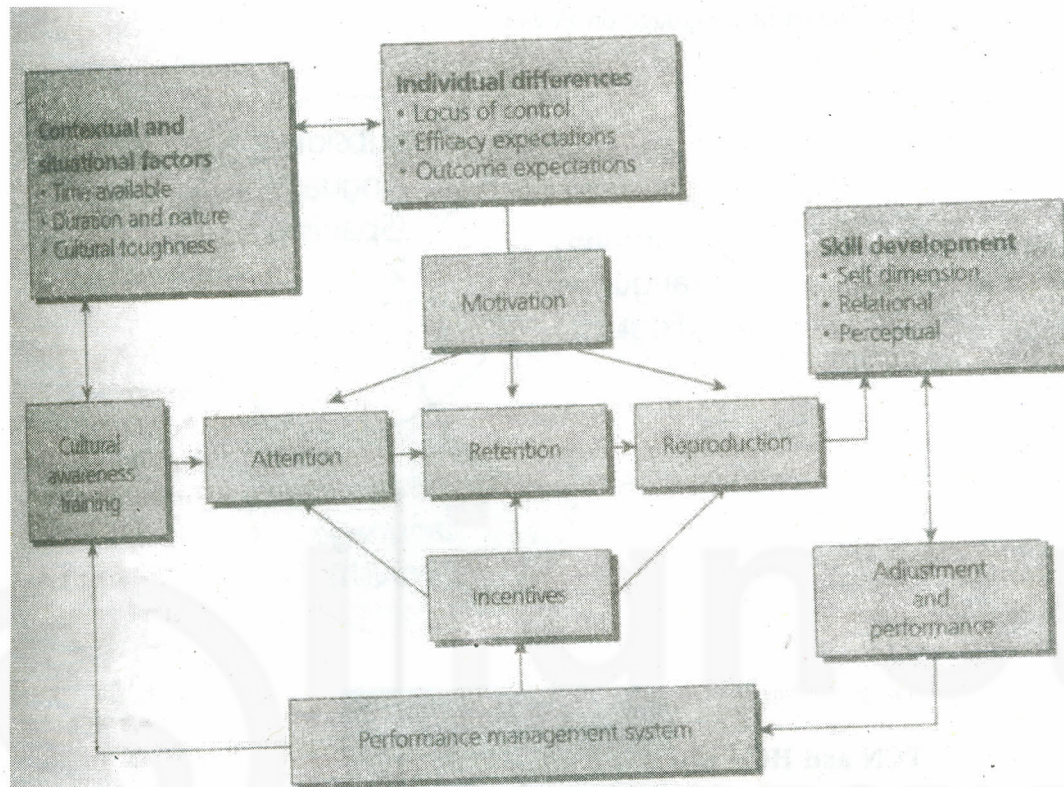
The expatriate employee must be able to blend in seamlessly in the host country. If he feels isolated he will not be as effective as the organization wants him to be. Cultural awareness programs enable the expatriate to gain a broad understanding of the host country's culture so that he will know what to expect once he is actually there. Even if he feels that he might not be able to wholeheartedly accept some aspects of the host country culture, he will get enough time to devise coping strategies. Therefore, cultural awareness training remains the most common form of pre-departure training.

The Mendenhall, Dunbar And Oddou Cross-Cultural Training Model



It can be quite useful to send the would-be expatriate, and his spouse too, on a preliminary trip to the host country. This will enable them to assess their suitability for the assignment. If, on their return, they convey disinterest to the management they can be dropped from the assignment. On the other hand if they are interested and feel confident, the management can fine tune the pre-departure preparation according to the inputs obtained from the preliminary visit.

Cultural awareness training and assignment performance



Source: Dowling, 2007

Language Training

One would expect Language Training to be the most important component of pre-departure training given the fact that different languages are spoken in different countries. But, surprisingly, Language training is generally not considered as important as cultural awareness training by MNCs. This may be due to the fact that English is generally accepted as the language of world business. Moreover, the most acceptable version is 'International English' rather than the style used by native speakers of English.

Quite obviously, MNCs of the English speaking countries of USA, UK, Canada and Australia are least concerned about Language Training, since they know that in almost all countries, barring a few exceptions, their employees can survive without knowing any language other than English. Not surprisingly, studies conducted among the expatriates from these countries have revealed that they don't consider language skills to be important. This is in contrast to executives from Europe, Asia and South America who considered knowledge of a foreign language to be critical to success.

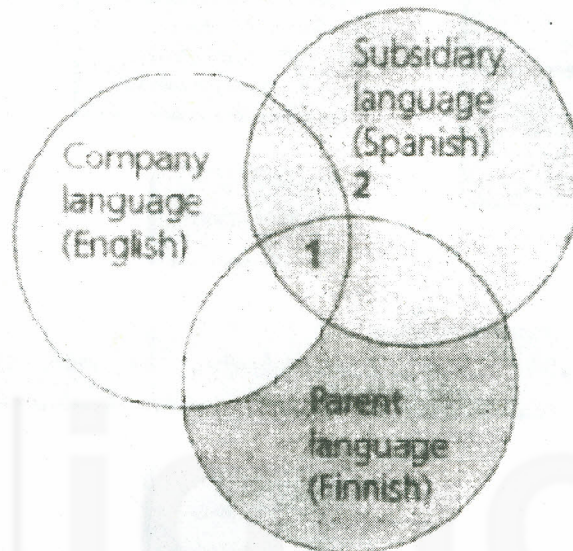
However of late, perhaps as a result of the increased global competitive pressure and growing awareness of its strategic and operational importance, MNCs from US, UK and Australia have started requesting their Universities to teach foreign languages as part of their curriculum. The expatriate may very well be able to cope with just English in his kitty, but it will do him a world of good to know the host country

language as well as this will enable him to interact and negotiate better while in the host country.

Of course, the degree of fluency required may depend on the level and nature of the position that the expatriate holds in the foreign operation, and the amount of interaction with external stakeholders such as government officials, clients and trade officials, and with host-country nationals.

A common company language becomes essential in MNCs to facilitate reporting and other control mechanisms. More often than not, English is chosen for this purpose.

#### The Impact of Language on Power



Source: Dowling, 2007

#### TCN and HCN expatriate training

There is a general feeling that atleast in some firms TCNs do not receive the same kind of training that PCNs do before moving to the host country. For example, if an Australian and an American is about to move to a Japan subsidiary of a US multinational, chances are that the American will receive elaborate training on cultural adjustment and the like, whereas the Australian may not be so lucky. If that is the case, the Australian might feel that they are being treated like third class nationals. There have been reports of inadequacy of training in the case of HCNs too, when they move to the parent country. However, it will be risky to generalize these survey findings, as training systems differ vastly between companies.

#### Provision of Training for Non-Traditional Expatriate Assignments

When the training levels are more or less low even for traditional expatriates, it is not surprising that practically no training is imparted before departure in the case of short-term and non-standard assignments. Lack of time, which is the most commonly cited reason for not providing pre-departure training, may be the villain in this case as well.

Non-expatriates, tend to be a forgotten group, yet for many firms they may comprise the largest contingent of employees involved in international business. International business travelers are flying into and out of foreign operations performing a myriad of tasks, including training, for example, explaining new product development, or service or process, to HCN employees that will involve demonstrations, seminar presentations and other methods of information dissemination.

## 6.6 DEVELOPING STAFF THROUGH INTERNATIONAL ASSIGNMENTS

International assignments are an important mechanism for developing international expertise. The expected outcomes are:

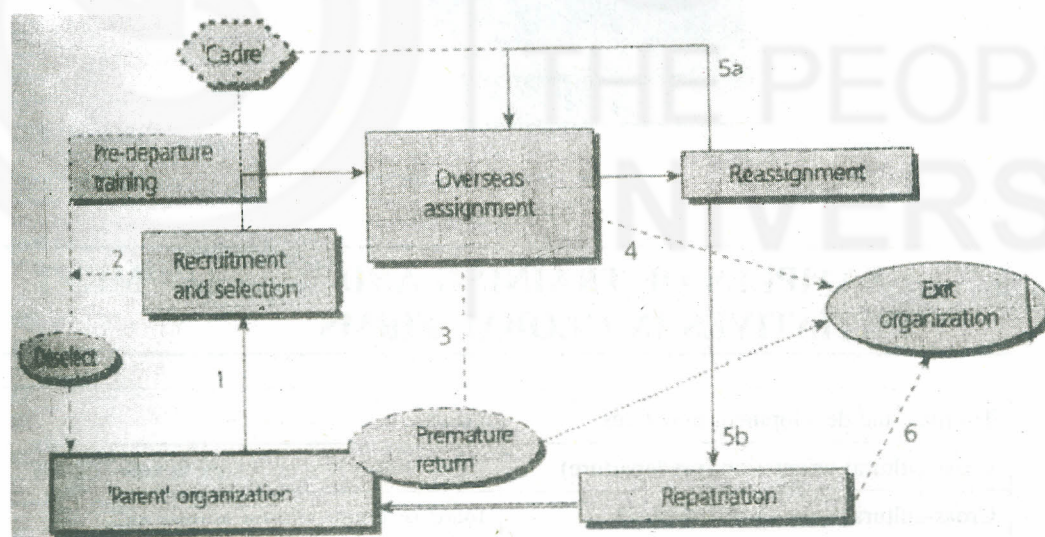
- *Management development.* Individuals gain international experience, which can be a shot in the arm for career progression. On the other hand the multinational also benefits through having a pool of experienced international operators who can be used for future international assignments.
- *Organizational development.* International assignments also help a multinational to accumulate stock of knowledge, skills and abilities upon which it can base its future growth. The horizon widens as far as the key personnel is concerned and their views become more broader and contemporary. The resulting global mindset is an important by-product of international assignments.
- Expatriates are agents of direct control and socialization, and assist in the transfer of knowledge and competence.

We shall now consider these outcomes, first from the perspective of the individual and then from the multinational's viewpoint.

### Individual Development

International assignments are in many ways similar to job rotation; in fact it is much more than mere job rotation. Hence it is only natural that all the benefits that are attributed to job rotation are expected from accepting an international assignment too. Job rotation is a management development tool that seeks to provide certain employees with opportunities to enhance their abilities by exposing them to a range of jobs, tasks and challenges. Thus international assignments are not only means for financial gains, but also aid in career advancement as well.

### Expatriate Career Decision Points



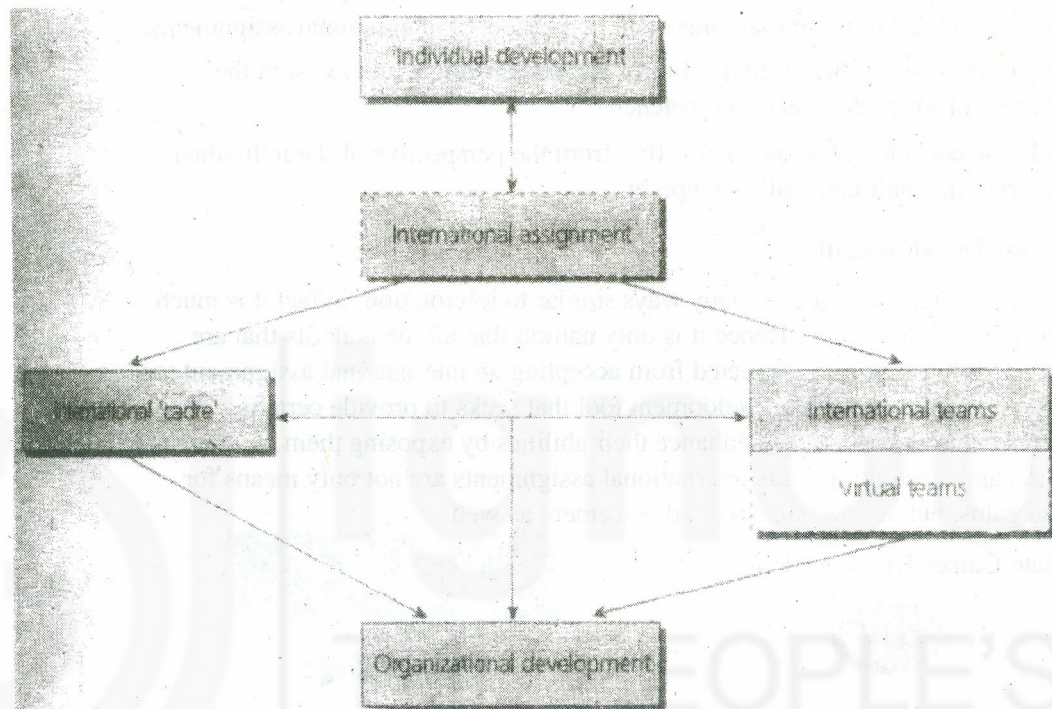
Source: Dowling, 2007

### Developing international teams

Expatriates may gain individual management development from the international assignment, as we have discussed previously. The international assignment often is the 'training ground' for the international 'cadre'. International teams can be formed from those who have had international experience, although the international assignment itself may be assignment to an international team, or to form an international team.

It is frequently argued that multinationals, especially in networked organizations, would benefit from using international teams as:

- A mechanism for fostering innovation, organizational learning and the transfer of knowledge
- A means of breaking down functional and national boundaries, enhancing horizontal communication and information flows
- A way of encouraging diverse inputs into decisions, problem-solving and strategic assessments
- A way of developing a global perspective
- A way of developing shared values, thus assisting in the use of informal, normative control through socialization
- Developing international teams through international assignments



Source: Dowling, 2007

## 6.7 EXAMPLES OF TRAINING AND DEVELOPMENT INITIATIVES IN GLOBAL FIRMS

Training and development initiatives	Goals
Cross-cultural orientation (predeparture)	Comfortably live and work in host country
Cross-cultural training (in-country)	Increase cross-cultural adjustment
Diversity training	Increase ability to understand and appreciate multiple cultural perspective
Language training	Fluency in another language
Traditional education in international management	Increase international business acumen and knowledge
Individualized coaching or mentoring on cultural experiences	Build cultural awareness; work on cultural 'blind-spots'; develop competencies for becoming an effective global leader

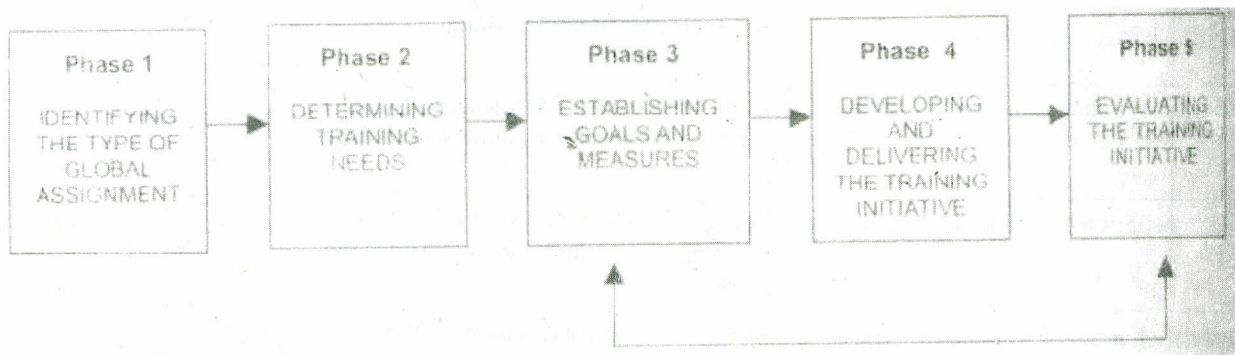
Immersion cultural experiences	Build extensive understanding of the local culture and increase ability to understand and appreciate multiple cultural perspectives
Cross-border global teams with debriefing	Learn skills to be a better leader (or team member) with multiple cultures involved in the team
Global meetings with debriefing or coaching	Learn skills to conduct a better meeting when multiple cultures are involved in the meeting
International assignment rotations with debriefing or coaching	Develop a deep appreciation for the challenges of working in another culture; increase global leadership competence.

Expatriate Assignment And Training And Development Initiatives

Training and development initiatives Functional	Techni- cal	Func- tional	Develop ment	Strate- gic
Cross-cultural orientation (predeparture)	✓	✓	✓	✓
Cross-cultural training (in-country)		✓	✓	✓
Diversity training		✓	✓	✓
Language training		✓	✓	✓
Traditional education in international management			✓	✓
Individualized coaching or mentoring on cultural experiences			✓	✓
Immersion in cultural experiences			✓	✓
Cross –border global teams with debriefing			✓	✓
Global meeting with debriefing or coaching			✓	✓
International assignment rotations with debriefing or coaching			✓	✓

## 6.8 DESIGNING EFFECTIVE CROSS-CULTURAL TRAINING (CCT) PROGRAMMES

An important aspect of any cross-cultural training initiative involves determining how cross-cultural training effectively enhances expatriates' cross-cultural competencies and facilitates their adjustment to the new environment. In order to improve the effectiveness of cross-cultural training initiatives, it is important to follow a systematic approach to designing such initiatives (Tarique and Caligiuri, 2004). A well-designed cross-cultural training initiative can enhance the learning process of the expatriate and thus facilitate effective cross-cultural interactions and adjustment (Black and Gregersen, 1991; Caligiuri et al., 2001). To understand the systematic approach to designing training initiatives, Tarique and Caligiuri propose a five-phase process as a general strategy to follow in designing effective cross-cultural training programmes.



Source: Dowling, 2007

The five phases are:

1. Identify the type of global assignment for which CCT is needed;
2. Determine the specific cross-cultural training needs (from the organization-level, assignment-level, and the individual-level);
3. Establish the goals and measures for determining training effectiveness;
4. Develop and deliver the CCT programme;
5. Evaluate whether the CCT programme was effective.

Gudykunst et al. (1996) suggest that the methods to deliver the instructional content can be categorized as:

- (1) Didactic culture general;
- (2) Didactic culture specific;
- (3) Experiential culture general;
- (4) Experiential culture specific.

Didactic culture-general methods provide cultural general information to expatriates and include lectures, seminars, reading material, discussions, videotapes and culture-general assimilators. Didactic culture-specific methods, in contrast, present information on a particular culture. Methods used in this category include area studies, videotapes, orientation briefings, case studies, and the like. Experiential culture-general methods help expatriates experience the impact of cultural differences on their behaviours. Methods in this category include immersion programmes or intensive workshops. Experiential culture-specific methods, in contrast, help expatriates experience and learn from interactions with individuals from the host culture. This approach generally includes methods like role-playing, look-see trips, in-country cultural coaching, and language training (Gudykunst et al.(1996)).

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## 6.9 RECENT TRENDS IN TRAINING AND DEVELOPMENT FOR THE GLOBAL WORKFORCE

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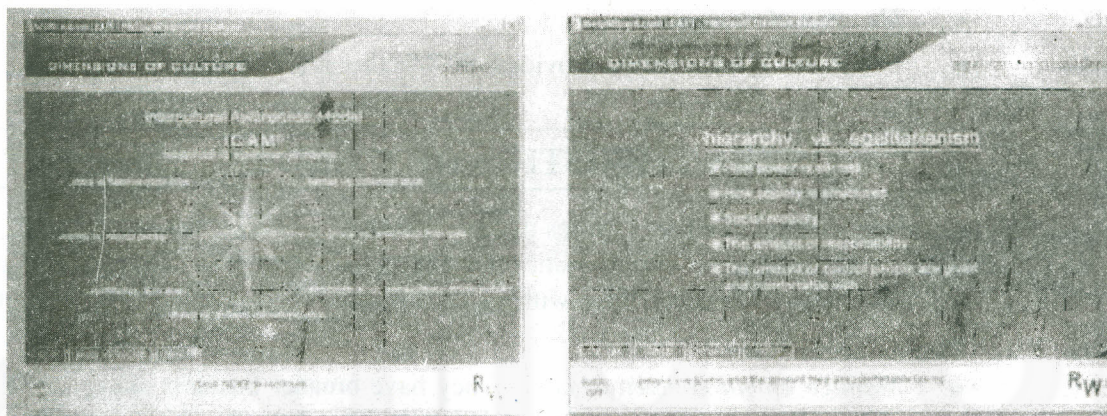
The expansion of globalization and ever-increasing sophistication in technology have given rise to two recent trends in global training and development: electronic cross-cultural training and global leadership development programmes. Both of these have seen a dramatic increase in usage over the past few years and are discussed in greater detail below.

### Electronic cross-cultural training

Recent advances in technology-based training, particularly CD-ROM, DVD internet-based training, multimedia and distance learning, have resulted in a vast array of new cross-cultural training methodologies (Greengard, 1999; Mendenhall and Stahl, 2000).

One interesting technology-based training innovation is the development of electronic cross-cultural training (e-CCT), that delivers training content via the internet/intranet in a variety of forms such as motion pictures, stills, text and sounds, and allows trainees to interact with the training content.

Compared to traditional cross-cultural training methodologies (for example lecture-based), e-CCT has several advantages: it enables firms to lower costs associated with delivering training content; it allows trainees to individualize and self-manage their learning experience, and it is easier to administer. For these reasons e-CCT is rapidly growing as an effective way of preparing expatriates to live and work in a new culture. Given that e-CCT contains highly specialized training content, many organizations depend on external training vendors to design, develop and deliver the e-CCT programme. Electronic cross-cultural training programmes come in a variety of packages, each with its own benefits and drawbacks, therefore selecting the right e-CCT vendor is very important to the success of the of the CCT programme. Figure below provides an example of e-CCT, and a method for evaluating an e-CCT programme.



These examples are taken from an e-CCT programme offered by RW3©

Figure 4.3 Example e-CCT screenshots

Source: Dowling, 2007

## 6.10 EVALUATION OF e-CCT

In many organizations, cross-cultural training programmes are being delivered via the internet or through organizations' intranet systems.

The success (or failure) of e-CCT can be determined by ascertaining to what extent the programme has been able to cover everything that is normally covered in traditional cross cultural training programmes. The following points are the important touchstones:

- The programme should have a section explaining what culture is and how it affects daily life.
- The programme should provide easy to understand models for understanding the different dimensions of culture.
- The programme should allow the evaluation of one's own cultural values.
- The participant's cultural values are to be evaluated against the host country's cultural values.
- The challenges related to culture shock should be effectively explained.
- The programme should provide the participant with an opportunity to consider and evaluate the challenges for his or her family, career and personality.

To evaluate these electronic delivery CCT programmes, one should determine to what extent this system provides a complete programme of CCT, covering everything that would normally be covered in a comprehensive cross-cultural training programme. The content of e-CCT can be evaluated by asking these questions:

In addition to the content, various other factors related to the electronic delivery are also to be considered. They are:-

- The self-directed nature of the programme.
- The ability to move in and out of the programme easily.
- The ability to access the information in real time, while the expatriates are on assignment.
- The flexibility and the customizability of the system. For example, whether the system captures and remembers the country in which a particular participant is living.
- The ease of use.
- The ease of navigation.
- The status of information provided. ie. Whether it is current.

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## 6.11 CHARACTERISTICS OF A GLOBAL MIND-SET

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Learning a global mind set requires the developing of a new set of competencies. There is no fixed set of characteristics that one should possess to be said to be having a global mindset. However, those with a global mind-set generally exhibit the ability to:

- *Manage global competitiveness.* They have broader business skills and the ability to conduct business on a global scale. They have the ability to design and manage complex international structures and strategies. They are aware of differences between nations and have up-to-date knowledge about global trends. These technical and business skills provide them with credibility in their various international assignments.
- *Work and Communicate with multiple cultures.* They are sensitive to the differences in culture and language and are hence able to interact highly effectively with employees, customers, suppliers and colleagues from many cultures. They fine tune their work and communication styles to perfection as they understand the impact of cultural factors on work relationships.
- *Manage global complexity, contradiction, and conflict.* They show the ability to manage the complexity, contradictions, and conflict which are experienced when dealing with multiple countries and cultures. Over time they develop a sensitivity to different cultures and cultural values and they learn to function effectively in different cultural environments; and they show the ability to handle more complexity and uncertainty than is experienced by their domestic counterparts. They consider more variables when solving problems and are not discouraged by adversity.
- *Manage organizational adaptability.* They themselves are highly flexible and are able to manage organizational change in response to new situations (that is, they are able to manage the global corporate culture and adapt it to multiple cultural environments). And they possess extensive curiosity and openness toward other ways of living and speaking, from which they draw ideas for organizational adaptation.
- *Manage multicultural teams.* They are able to effectively manage cross-border and multicultural teams. They value the diversity present in such teams

and consider it an opportunity rather than a threat. They are able to be a cross-border coach, coordinator, and mediator of conflict for such teams. Not only are they mediators of conflict, they do the needful to minimize the eruption of conflicts to the maximum extent possible. They relate well with diverse groups of people and are able to develop the necessary cross-border trust and team work that is important to the effective performance of such teams.

- *Manage uncertainty and chaos*, which is part and parcel of global experience. They are comfortable with ambiguity and remain patient even in trying situations; they can make decisions in the face of uncertainty and can see patterns and connections within the chaos of global events. They show extensive curiosity about other cultures and the people who live in them.
- *Manage personal and organizational global learning*, both for themselves and for others with whom they work.

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## 6.12 GLOBAL TRENDS IN TRAINING AND DEVELOPMENT

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- Training will continue as a highly valued activity for building and enhancing the skills required by enterprises and individuals. The evolution of work requirements from agriculture to manufacturing to service to information has changed the expected outcomes from training programmes. Many important skills will survive, but they will be in new forms and in new environments.
- Training and development will continue to be essential for enhancing competitive advantage since the company can only be as competitive as its employees are, irrespective of the level of technological development. Being competitive is all the more important in world markets, without which the companies will perish. Training in soft skills will grow in importance, including cultural training, customer relations, safety and security, management skills, etc.
- Training in working in new ways and in venues will continue to gain in importance.
- Training will grow in importance in mega-corporations spanning the globe as workforce development will increasingly become a global undertaking.
- Training will increasingly become re-training. This is because existing skill sets tend to deteriorate and new skill sets need to be learnt. This will also be driven partly by the increasingly rapid technological change and by other factors inherent in the globalization of business.
- Systems of training will have to become increasingly flexible and fluid, responding to the needs of a global economy demanding rapid workforce responses to changing circumstances and product innovations.
- Distance learning technologies will become more common and implemented globally so as to provide the much needed flexibility in the training system.
- Human capital investment and knowledge management will become the centers of global business strategy. Training and development are cornerstones of this strategy.
- New categories of workers will increasingly enter the workforce and need to be trained. Training will have to respond to the aging and the diversification of the workforce.

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## 6.13 SUMMARY

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The nature of international work assignments are fast changing. Today, owing to the spectacular developments in the telecommunications field, many people are involved in cross border work without even leaving their offices. In many organizations, the employees, the suppliers and customers are located in different countries, and some of these countries fall in different time zones too. The concept of international teams, in which the team members are located in different countries, is also fast catching up. Instead of sending people on short term and long term assignments, many companies are resorting to a commuter assignment system in which the employees fly frequently between countries without actually settling down in the foreign country.

Highly competent workforce is essential for success in today's business world. It is all the more so in the case of companies who operate globally. An essential requirement to ensure that people on international assignments are competent and have the required skill sets is to effectively design and impart proper training. The training, inter alia, should address issues connected with the host country language and culture.

In the process, we have discussed:

- The role of expatriate training in supporting adjustment and on-assignment performance
- The components of effective pre-departure training programs such as cultural awareness, preliminary visits, language skills, relocation assistance and training for trainers.
- How cultural awareness training appears to assist in adjustment and performance and therefore should be made available to all categories of staff selected for overseas postings, regardless of duration and location.
- The need for language training for the host country and in the relevant corporate language.
- The impact that an international assignment may have on an individual's career.
- The international assignment as an important way of training international operators and developing the international 'cadre'. In this sense, an international assignment is both training (gaining international experience and competence) and managerial and organizational development.
- How international assignments are connected to the creation of international teams.
- How to develop global mindset for international assignees.

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## 6.14 SELF-ASSESSMENT QUESTIONS

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1. What are some of the challenges faced in training expatriate managers?
2. How does an international assignment assist in developing a 'cadre' of international operators? Why is it necessary to have such a 'cadre'?
3. Why do some multinationals appear reluctant to provide basic pre-departure training?
4. Compare and contrast the four types of training and development strategies. Explain why an MNC's training and development strategy will differ depending on the type of global strategy?

5. Describe the 'five -phase' systematic approach to designing cross-cultural training programmes.
6. What are some of the advantages of using e-CCT?

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## 6.15 FURTHER READINGS

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# UNIT 7 INTERNATIONAL PERFORMANCE MANAGEMENT

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## Objectives

To learn:

- The concept of performance management in international context.
- The challenges faced by MNCs.
- The criteria to evaluate.
- Performance appraisals in international context.
- Standardized performance forms.
- Model of expatriate performance management.

## Structure

- 7.1 Introduction
- 7.2 Purposes and roles of International Performance Management (IPM)
- 7.3 Challenges to the Effectiveness of the IPM System
- 7.4 What Criteria should be Used for Evaluation ( ie.What Should be Evaluated)?
- 7.5 Who should do the Evaluation?
- 7.6 Performance Management of International Employees
- 7.7 Performance Appraisal in International Context
- 7.8 Expatriate Performance Management: A Model
- 7.9 Summary
- 7.10 Self-Assessment Questions
- 7.11 Further Readings

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## 7.1 INTRODUCTION

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In this era of cut throat global competition, the slogan is “Perform or Perish”.

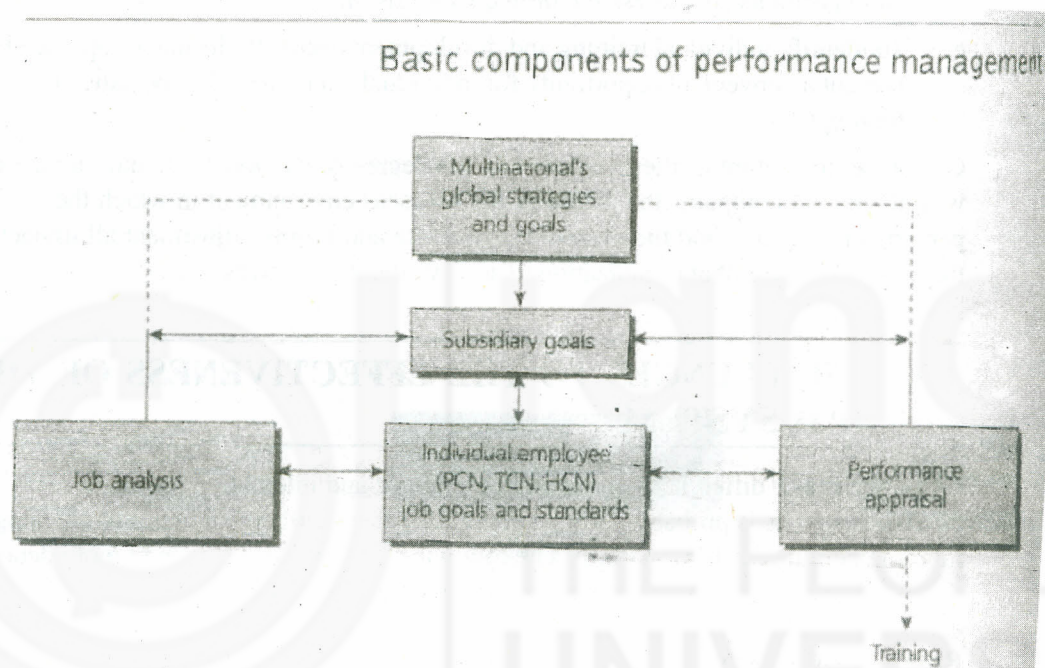
As the MNCs’ operations are spread over wide geographical areas, coordination and control over the subsidiaries assumes supreme importance. In this context, the role of expatriates (both the ‘Third Country Nationals i.e., TCNs and Parent Country Nationals i.e., PCNs) becomes crucial for a MNC.

There are several aspects related to traditional performance management (especially appraisal criteria and processes) that require substantial modifications when used for international operations. We specifically address the following aspects:

- 1) The differences between Multinational performance management at the global and local level: This assumes importance because very often the data pertaining to local operations and international operations are not comparable. The volatility of the global environment, the effect of distance and level of subsidiary maturity also need to be considered.
- 2) Performance management as part of a multinational’s control system.
- 3) Factors associated with expatriate performance, including compensation package, task and role, headquarters’ support, host environment factors and cultural adjustment.

- 4) Performance management of expatriates and non-expatriates, and for those on non-standard assignments such as computer and virtual.
- 5) Issues related to the performance appraisal of international employees.

'Performance management' and 'performance appraisal' are not the same. Performance management is a process that enables the multinational to evaluate and continuously improve individual, subsidiary unit and corporate performance, against clearly defined, pre-set goals and targets. Continuous improvement is the main goal of performance management, whereas performance appraisal's expected outcomes are promotions, pay hikes, lay-offs and the like. The basic components of international performance management are given in the chart below. It provides a convenient starting point for our exploration of the link between the multinational's internationalization strategies, its goals for individual units in terms of contribution to global profitability and the performance management of individual employees, whether PCN, TCN or HCN. This link is important as an individual's performance is appraised (or evaluated) according to expectations of appropriate outcomes and behavior that contribute to organizational goal attainment.



Source: Dowling, 2007.

## 7.2 PURPOSES AND ROLES OF INTERNATIONAL PERFORMANCE MANAGEMENT (IPM)

The objectives of developing a performance management system vary from company to company, but in most cases the primary aims are evaluation and development. This holds good for both domestic and international operations. Although the goals are almost the same for both domestic and international operations, implementation of the system is much more difficult in the global arena.

Evaluation goals for performance appraisals in the international environment include:

1. To provide feedback to managers so they will know where they stand. This will help the managers (appraisees) to gear up for the next round.
2. To develop valid data for pay, promotion, and job assignment decisions, and to provide a means of communicating these decisions. From the appraisee's point of view pay hikes and promotions are the most important aspects which depend upon performance appraisals. In many cases, pay hikes, promotions, demotions, job assignments etc are communicated during the appraisal process itself.

3. To help management in making discharge and retention decisions, and to provide a means of warning employees about unsatisfactory performance. For the under-achievers, appraisal day is the most dreaded day since they are likely to get a dress-down from the appraisers.

*Development goals* for performance appraisals in the international environment include:

- a. To help managers improve their performance and develop future potential.
- b. To develop commitment to the company through discussion of career opportunities and career planning with the manager.
- c. To motivate managers via recognition of their efforts. Intangible benefits like recognition are becoming more and more crucial these days as companies find it difficult, especially during down turns, to increase tangible benefits (like salary) beyond a certain limit.
- d. To diagnose individual and organizational problems. It is easy to overlook serious problems because of the geographical spread. Performance appraisals present an opportunity to address the problems heads on.
- e. To identify individual training and development needs. Performance appraisals present a convenient opportunity for individuals to request for specialized trainings.

Of course, the nature of the overseas job, the degree of support from and interaction with the parent company, the nature of the overseas environment in which the performance occurs, and the degree of expatriate and family adjustment all impact the ability of any global organization to achieve these objectives.

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### 7.3 CHALLENGES TO THE EFFECTIVENESS OF THE IPM SYSTEM

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Given the major differences between the domestic and international PM environments, it is probably to be expected that there will be a number of challenges in implementing the IPM system. The following paragraphs describe in more detail the most important of these issues involved with an IPM system.

#### **Rater Competence**

The most crucial question as far as International performance management is concerned is who should conduct the appraisals. In a domestic setting, managers are evaluated by their seniors with whom they constantly interact and work closely. However, in the case of international performance appraisals, unfortunately, parent-company executives who have never worked or lived overseas often complete expatriates' appraisals. They lack an understanding of the social and business contexts in which the work is performed, and consequently these managers have no feel for the unique challenges faced by IAs or other overseas managers. Under these circumstances, the chance of rater error increases significantly.

A competent or internationally experienced rater who understands the realities of the global business situation can compensate for a poorly designed performance appraisal system that either measures the wrong things or doesn't have a way to take into account the external factors. The combination of a poorly designed system and a rater who does not understand the international business situation and/or the cultural context of the rate will almost inevitably lead to invalid performance evaluations. When top management does not understand overseas business realities, mistakes in IA/FM evaluations, whether done formally or informally, are likely to occur.

**Rater Bias**

Even when performance evaluations are made by a host-country manager (or home-country executive with international experience) who understands the IA and foreign manager's challenges, its validity cannot be assured. Individuals from different cultures tend to misinterpret each other's behaviors, and this can lead to bias. Very often, these misinterpretations will be based on preconceived (prior to the evaluation) notions on the part of the rater, that is, based on some characteristic of the IA/FM that is neither directly related to nor having a bearing on the performance under review.

**Host environment**

The environment in the foreign country is of primary importance. The different social, legal, economic, technical, and physical demands on the expatriate affects the IS/FM performance to a great extent. Hence to be fair to them, IA/FM performance and performance expectations need to be placed within its international as well as its organizational contexts. The type of structure in the foreign setting adds another dimension to this concern over the host environment. In many locales, for example, working in a wholly-owned subsidiary will probably be much easier than working in a joint venture with a local partner. Similarly, overseeing the opening of a new office or facility in a foreign country, especially in a developing country or emerging market, will be different than the challenges faced in a more mature operation.

**Whole versus part**

By its very nature, a multinational is a single entity that operates in a global environment, which means that it confronts differing national environments at the same time. In such a situation, integration and control are crucial to the success of the multinational and hence it often decides that the good of the whole is more important than one subsidiary's short-term profitability. For example, a multinational may establish an operation in a particular market where its main global competitor has a dominant position. The objective of entering the market is to challenge the competitor's cash flow with aggressive pricing policies.

This particular subsidiary might continually incur losses, but this strategy, by tying up the competitor's resources, may allow substantially higher returns in another market. The difficulties in quantifying such a global strategy in terms of the usual return-on-investment objectives are obvious. If one looks at this subsidiary in isolation, one may tend to think that establishing this subsidiary was a bad idea.

Another situation is where the multinational establishes a joint venture in a particular market merely to have a presence there, even though it has low expectations in the short term and may provide minimum resources to the venture. Therefore, the consequences of such global decisions for subsidiary management must be taken into consideration for performance appraisal, without which the subsidiary manager will be unfairly penalized for low performance when the parent company itself is willing to accept such low performance.

**Non-comparable data**

Frequently, the data obtained from subsidiaries may be neither interpretable nor reliable, as the following examples illustrate:

Sales in Brazil may be skyrocketing, but there are reports that the Brazilian government may impose tough new exchange controls within a year, thus making it impossible for the multinational to repatriate profits. Does this mean that the MNE is performing effectively? Is the subsidiary performing effectively?

## Volatility of the Global Environment

The turbulence of the global environment requires that long-term goals be in order to respond to potential market contingencies. According to Pucik an inflexible and shortsighted approach may mean that subsidiaries could be pursuing strategies that no longer fit the new environment. Consider, for example, the impact on international business of major events in the past decade or so, such as the collapsed communist rule in the late 1980s in Eastern Europe and the former Soviet Union, the adoption of the Euro as the single currency by most of the European Union countries, Chinese market reforms, the rise of international terrorism and the Severe Acute Respiratory Syndrome (SARS) epidemic. In each of such cases, the companies would benefit if they foresee the changes; the earlier they foresee the better. And the approach should be flexible enough to quickly make adjustments.

## Separation by time and distance

Judgments concerning the congruence between the multinational and local subsidiary activities are further complicated by the physical distances involved, time-zone differences, the frequency of contact between the corporate head-office staff and subsidiary management and the cost of the reporting system. Even though Communication technology has improved by leaps and bounds in the recent past, fax machines, Video telephone conferences and e-mail, cannot be considered substitutes to 'face-to-face' contacts between subsidiary managers and corporate staff. Technology can only supplement the traditional methods. In some areas, the telecommunications system may be so overloaded, or underdeveloped, that reliable telephone, fax services and Internet connections cannot be assumed. Even they are properly in place, it is often necessary to meet personally with a manager to understand fully the problems that managers must deal with. Hence many multinational corporate managers spend a considerable amount of time traveling in order to meet expatriate and local managers in foreign locations, to gain first hand information about the ground realities. It is then possible for HR corporate staff, when designing performance management systems, to take account of country-specific factors.

## Variable levels of maturity

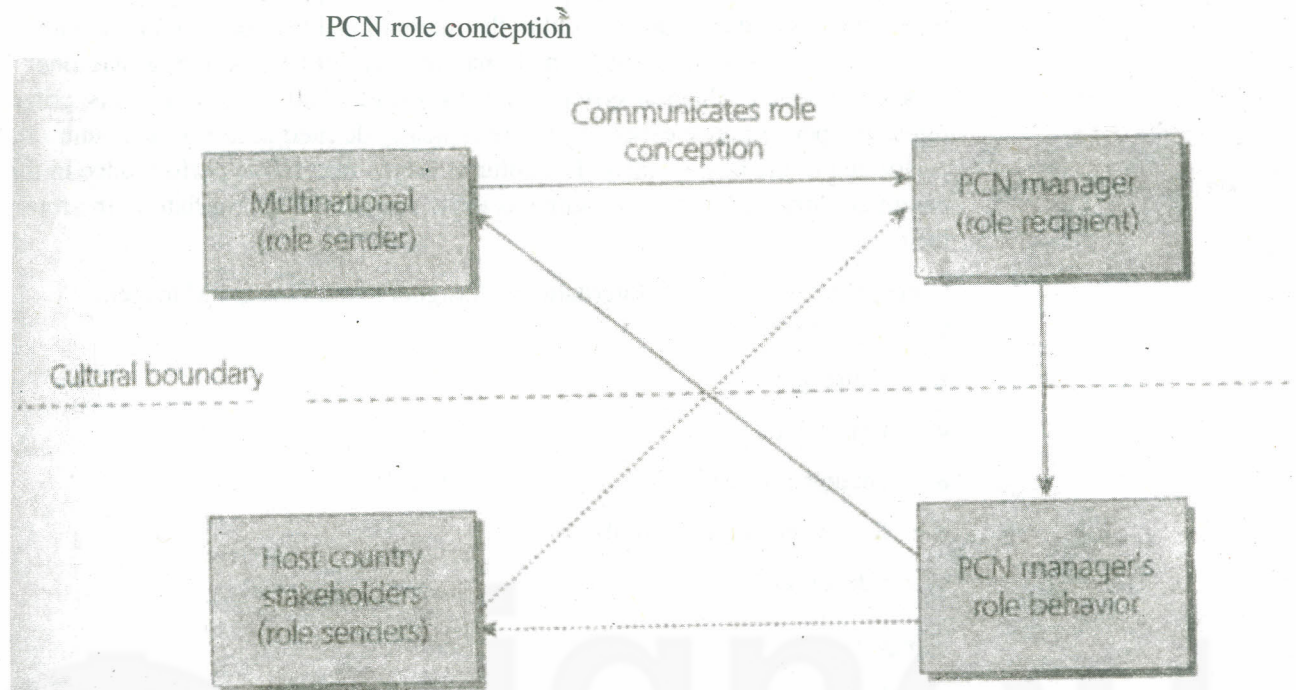
According to Pucik, without the supporting infrastructure of the parent, market development in foreign subsidiaries is generally slower and more difficult to achieve than at home, where established brands can support new products and new business areas can be cross-subsidized by other divisions. In many cases, foreign subsidiaries are practically left to fend on their own. As an obvious result, more time may be needed to achieve results in a foreign location than is customary in a domestic market and this fact ought to be recognized in the performance management process. Further, variations in customs and work practices between the parent country and the foreign subsidiary need to be considered.

## TASK:

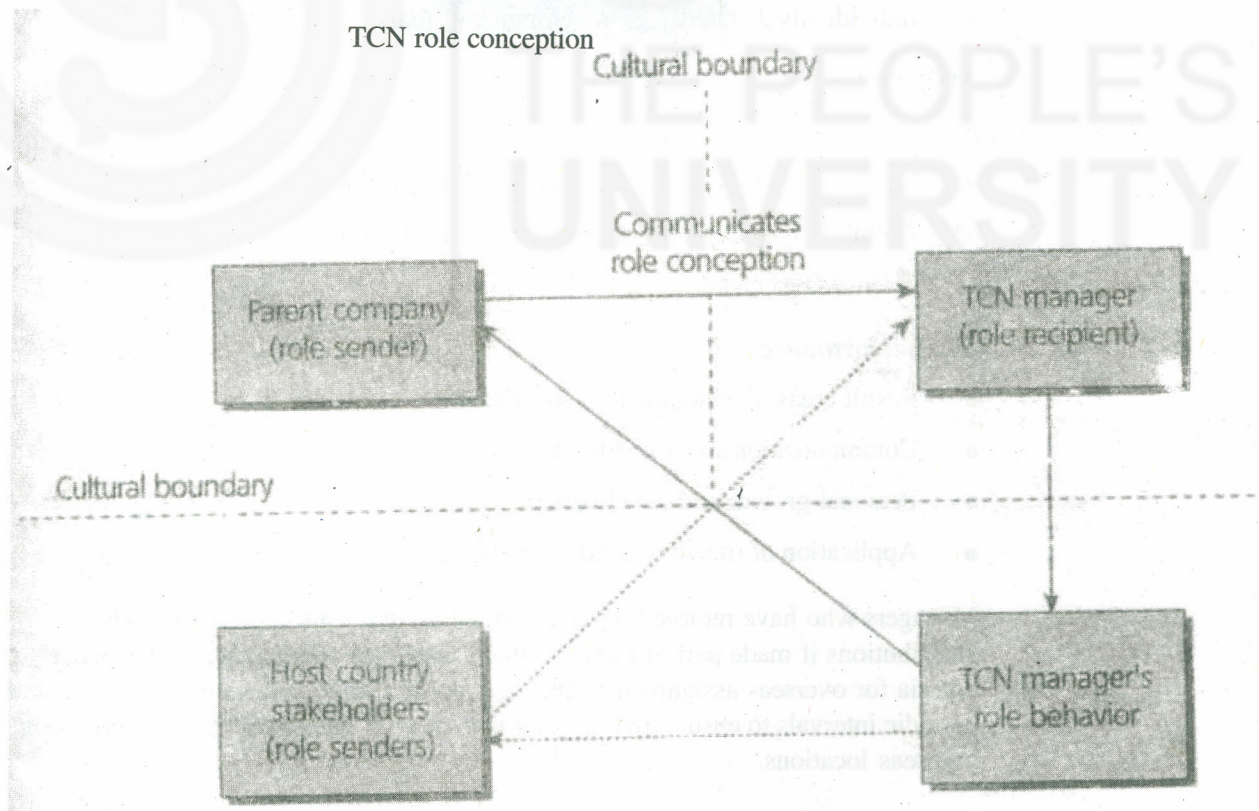
As outlined earlier, expatriates are assigned to foreign operations to fulfill specific tasks. Hays identified four such tasks:

1. Overall supervision: The chief executive officer, or subsidiary manager, oversees and directs the entire foreign operation.
2. Reproducing the structure: The structure reproducer is assigned the task of reproducing in a foreign subsidiary a structure similar to that which he or she knows from another part of the company. The structure could be related to marketing framework, accounting/ financial reporting system or establishing a production plant, for example.

3. Troubleshooting: The troubleshooter is the individual who is sent to a foreign subsidiary to analyse and solve a particular operational problem.
4. Operations: The operative is the individual whose assignment is to perform functional job tasks in an existing operational structure, in generally lower level, supervisory positions.



Source: Dowling, 2007



Source: Dowling, 2007

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## 7.4 WHAT CRITERIA SHOULD BE USED FOR EVALUATION (ie., WHAT SHOULD BE EVALUATED)?

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This question poses several complexities since the expatriate is expected to meet parent company standards, but within the international and local culture contexts. So there are two sets of standards, which may or may not be conflicting with one another, and the evaluation system needs to consider both. The problem is, criteria, roles, and performance expectations are typically defined in the home country but performed in the host country. The cultural norms that define performance in the parent country may not be the same as those considered appropriate in the foreign locale.

### Criteria For Appraisal Of International Assignees And Foreign Managers Qualifications

- Training
- Experience
- Technical skills
- Social and language skills
- Education

### Targets

- Directly derived from the parent company's objectives
- Directly derived from the subsidiary's objectives
- Directly derived from local objectives
- Individually dictated, e.g., developmental goals

### Attitude for

- Flexibility
- Interpersonal understanding and communication skills
- Ability to cope with the stress (culture shock) of the assignment
- Openness to change

### Job performance

- Result areas; development of local team
- Communication and decision making
- Personal growth and development
- Application of (newly gained) expertise

Managers who have returned from expatriate assignments can give valuable contributions if made part of the team that establishes and updates performance criteria for overseas assignments. The criteria need to be reviewed and modified at periodic intervals to ensure that they are in sync with the ground realities prevalent in overseas locations.

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## 7.5 WHO SHOULD DO THE EVALUATION?

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As complex as the "What should be evaluated" question is the question of "Who should evaluate". The problem is best addressed by the use of multiple reviewers. Some of these reviewers will be quite familiar with the expatriate's work sphere, and other may be not. Such diversity will bring the much needed multiplicity of perspectives to the reviewing table. The review may be done by superiors, peers, subordinates, customers or clients.

This is an application of what is referred to as the 360 degree review process, i.e., using reviews from above, below, and beside the candidate reviewed, and even using self-review.

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## 7.6 PERFORMANCE MANAGEMENT OF INTERNATIONAL EMPLOYEES

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Generally the term 'expatriate' is used to cover PCNs, TCNs and those HCNs on assignment to headquarters. Here we shall use the term 'international employees' to include non-expatriates (international business travelers) within scope, given the fact that often issues are common to both expatriates and non-expatriates.

The international assignments vary in terms of the duration and scope of physical relocation required. Based on these criteria, international assignments can be broadly divided into two: Traditional and Virtual. In the case of traditional assignments, expatriates, and in most cases their family members too, relocate to the foreign country, whereas in the case of virtual assignments physical relocation is not required. Performance management system should take care of both the above mentioned types.

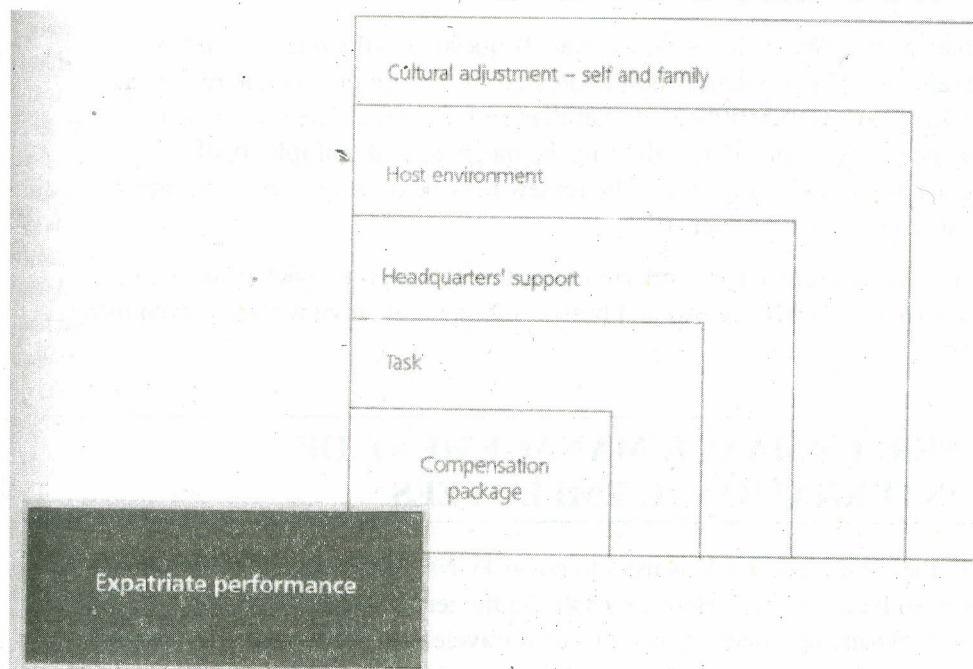
### Expatriate Performance Management

When attempting to determine expatriate performance, it is important to consider the impact of the following variables and their inter-relationship:

- the compensation package
- the task - the assignment task variables and role of the expatriate
- headquarters' support
- the environment in which performance occurs - the subsidiary or foreign facility
- cultural adjustment - of the individual and the accompanying family members

In the figure below these variables form the basis upon which we will explore the nature of the international assignment, how performance is managed, the criteria for assessment and the other elements that comprise an effective performance management system. We use the term 'expatriate' to cover PCNs and TCNs, in addition to HCNs on assignment at headquarters, as much of the following is applicable to all three categories of international assignees.

## Variables affecting expatriate performance



Source: Dowling, 2007

Perceived financial benefits, along with the career progression potential associated with an overseas assignment, are often important motives for accepting the posting. Expatriates earn valuable experiences during overseas assignments. But in the final analysis, these are worthless for the expatriate if these intangible benefits could not be converted to tangible benefits like promotion and high pay. If the expatriate's expectations are not realized during the assignment, the level of motivation and commitment is likely to decrease, thus affecting performance.

Expatriates at different levels approach performance management differently. For example, middle managers played a moderate role in establishing performance goals, whereas business establishments played a strong role in establishing their performance goals and job descriptions.

Environmental factors are more or less beyond the control of the MNC. However Task variables within the given foreign environment are generally considered to be more under a multinational's control. Hence task variables can be better assessed and more easily changed, depending, of course, on the level of position and the nature of the task assignment. MNCs, while specifying the tasks, determine the role that accompanies each task position, as do most other organizations. A role is the organized set of behaviors that are assigned to a particular position. Role is an objective factor which is predetermined, however its interpretations can be subjective. Different individuals may interpret the same role in different ways.

Role conceptions are communicated to the role recipient (expatriate) by a variety of stake holders who can be broadly classified as parent country stake holders and host country stake holders. Host country stake holders include subsidiary employees, host government officials, customers and suppliers. The difference in expectations of the parent country stake holders and the host country stake holders can lead to role conflict. Those expatriates who have a good understanding of the host country culture will know that the use of headquarters' procedures or actions which are not in conformity with the host country culture will be ineffective. In such a situation they may adapt their role behavior to the role conception communicated in the host environment and this can lead to a conflict with the headquarter-defined role. The

more the intercultural interaction of the expatriates, the more the problems that they are likely to face.

Since performance appraisals are done by the parent organization, it is natural that more importance is given by the appraisers to conformity to parent country instructions. Since the expatriate is aware of this, PCNs may elect to ignore role communication sent from the host-country stakeholders. After all, the expatriate's career is with the parent, not the host subsidiary. Gregersen and Black in their study of US expatriate retention and dual commitments (to the parent and the local organizations) have found that, at the correlational level, commitment to the parent and to the local operation were both positively related to intent to stay'. However, 'regression analysis indicated that when controlling for certain demographic and attitudinal variables, commitment to the parent company appears to be slightly more relevant than commitment to host subsidiary to expatriates' intention to stay'. Role conflict was found to affect commitment to the parent company, but was unrelated to commitment to the host company. Role autonomy is also a major intervening variable. In certain countries, work methods are more structured than in others. Although structured work methods have their own advantages, scope for job discretion will be low when the work is more structured. For example, job discretion emerged as an important aspect from a survey of 115 US expatriates working in various countries by Birdseye and Hill. They found that: 'Foreign work methods may be more structured than their American counterparts (perhaps more procedures and protocols) and that individuals have less discretion in how they approach tasks and problems.' These authors conclude that individuals are likely to blame this lack of discretion on the organization, the job and the location- in that order. A similar finding emerged from a study of US domestic and international relocation by Feldman and Thompson. The degree of change in job duties was positively related to adjustment, whereas the degree of change in the organization was negatively related to adjustment. Hence role conflict and role autonomy appear to be important elements in job satisfaction and task performance.

Although task performance is given much importance during expatriate appraisal, it is worth noting that it cannot be completely isolated from the context in which it is performed. Many individuals and firms consider job ability as the most important factor on which success depends. However, the host country environment significantly affects the performance, especially in the case of certain types of tasks, which require significantly more interaction with host-country stakeholders. Hence the task variables should not be evaluated in isolation from the subsidiary environment context.

Another factor relating to task variables that warrants consideration is the similarity of the job to which the individual is assigned abroad to the job he or she held domestically. A person who is an expert in one type of job may be a total failure in another. Some types of tasks require an individual to operate within a given structure which is in existence for a long period, whereas other tasks demand the creation of the structure. Some individuals are tolerant towards a lack of structure whereas others cannot work efficiently when faced with the ambiguity caused by the absence of the structure. Moreover, only certain individuals will have the capacity to conceive and implement a system where there is none. MNCs have often made the mistake of blindly assuming that those who perform exceptionally well within an existing structure in the parent country will be able to replicate the structure or create an entirely new structure abroad.

Even within the parent country, employees are likely to be transferred from one city to another for various official reasons and to meet organizational objectives. In geographically wide countries like Russia and India, such transfers within the country might mean relocations to places more than several thousand kilometers away.

However, the cultural environment tends to remain more or less the same within a given country. The expatriate assignment differs from a domestic relocation as it involves the transfer of the individual and accompanying family members into a foreign environment, outside their normal cultural comfort zones. An individual who accept a foreign assignment may be doing so primarily in anticipation of career progression and financial rewards, loyalty and commitment towards the organization may also be playing a role. The process of adjustment to the foreign location typically produces, to varying degrees, a range of emotional and psychological reactions to unfamiliar situations encountered over the period of the stay in the host country. The level of **headquarters' support** provided to the individual and the family is an important performance variable.

The environment has an impact on any job, but it is all the more so in case of expatriate management. The international context - with its differing societal, legal, economic, technical and physical demands - can be a major determinant of expatriate performance. Hence to be fair to the expatriate, his performance should be placed within its international and also its organizational context.

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## 7.7 PERFORMANCE APPRAISAL IN INTERNATIONAL CONTEXT

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Some of the major issues related to expatriates' performance appraisal have been discussed below.

### Performance Criteria

In appraising expatriates' performance, three types of criteria should be considered. They are:

**Hard criteria:** These criteria are performance-based or tangible outcome-based (for example, profits, market share, etc). Since the outcomes are tangible collecting, interpreting and assessing the performance based on this criteria is easy. However, this criterion is not ideal for comparing the performance of expatriates against domestic performance standards, since expatriate managers face many environmental difficulties from which domestic managers are usually insulated. Such difficulties are not taken into account while assessing performance based on hard criteria.

**Soft criteria:** These criteria are relationship or trait-based. These interpersonal criteria can be even more critical in the international assignments, since the expatriates have to function in cross-cultural work settings. However, the potential difficulty of collecting and interpreting soft criteria is to be remembered, especially in international business context. Because of the subjective nature of soft criteria, factors such as, rater errors, biases and cultural differences (of ratees, raters, and other concerned people), care should be taken while evaluating such criteria.

**Contextual criteria:** These are situation-specific criteria. These criteria are dependent on the expatriate's specific assignment and represent a variety of external conditions that may affect both hard and soft criteria. Contextual criteria can affect an expatriate's perceived performance in ways that are not recognized by appraisers. These criteria may also include situational constraints, such as, cultural, language and environmental differences.

Each type of above-mentioned performance criteria, i.e., hard, soft and contextual, provides unique and important information for expatriate appraisal and are therefore essential to be included in the performance appraisal system. The appraisal is likely to be more accurate when all the three type of criteria are used rather than any of the

three. Thus, to increase performance management more accurately, firms would likely to benefit by incorporating a mixture of hard, soft and contextual criteria.

### **Standardized or Customized Performance Appraisal Form**

Many domestic firms, particularly those which are yet to make a transition from performance appraisal to performance management have their own specified formats for performance appraisal forms for each job category. Such forms help in achieving the following:

- Collection of error free performance data for taking personnel decisions
- Enable cross-employee comparisons

A crucial question in this context is whether these standardized forms can be used for appraising international managers. Gregerson et al.(1996) is of the opinion that as long as the context of performance remains unchanged it is valid to use such standardized formats. However, in the case of the expatriate, since the context changes, using such formats can be meaningless.

However, research has shown that an overwhelming majority of firms studied, including those based in matured markets like US, seem to be using the same domestic standardized form for appraising their expatriates abroad. However expatriates are of the view that traditional formats of performance appraisal are many a time incapable of capturing the critical success factors in the situational context of the expatriates' host country. An example of this may be failing to gauge critical success factors in cross-cultural competence. (Fenwick, 2000).

### **Frequency of Appraisal**

The most commonly used frequency in appraisal is on a yearly basis. This trend goes well with usage of the standardized format of performance appraisal. Only very few HR executives have exposure to foreign assignments and hence, there is very little awareness about the need to include contextual criteria into consideration while customizing a format for expatriates' performance appraisal.

### **Performance Feedback**

Regular feedback of performance after a review is the hallmark of a good performance management system. This is essential for continuous improvement of performances. The assessed individual gets a chance to reorganize and to channelize his energies in a different direction if the feedback reveals that he is moving on a wrong path. However, in the case of expatriates, feedback may not always happen, since they would be evaluated by a geographically distant manager and geographical dispersion necessitates dependence on e-mail communication. In the case of virtual assignees, things are even more complicated, since geographical dispersion necessitates dependence on e-mail communication. This fact has been reported by Milliman et al. (2002) in their narration of two critical incidents involving miscommunication between managers working on virtual assignments in the U.S.A. and Malaysia. Email feedback about his Malaysian counterpart's good performance sent to the Malaysian, by the American head of the project lead to a cycle of cross-cultural conflict. The virtual team's performance was seriously threatened when the Malaysian sought a transfer out of the team.

### **Appraisal of HCN Employees**

The practice of performance appraisal itself confronts the issue of cultural applicability (Adler,1997; Schneider, 1988; Latham and Napier, 1989).

In some countries, performance appraisals are interpreted and viewed as an indicator of distrust or even, insult. In Japan, for example, the manager cannot directly

point out a work-related problem or error committed by a subordinate (Koivisto, 1992), since it is important in Japan to avoid direct confrontation to 'save face'. Ideally, the superior is supposed to explain the mistake committed at a general level so that the subordinate does not have to face embarrassment, and continue with such explanations till the time, the subordinate understands the problem and proposes to improve his work. Such customs affect the way performance appraisal is done in that country. Such nuances are to be understood before doing performance appraisals, lest the appraisals turn counter-productive.

One way to avoid confrontation and misunderstanding is to rope in HCNs to assist in devising an appropriate system for appraising subsidiary employees. Their advice about how the appraisal should be carried out can also be sought. This, however, may lead to non-standardization of performance management system, since nationals of different host countries may suggest different systems. Another disadvantage of using HCN managers for appraisal is that they are expected to perform a role that has been conceptualized at the headquarter of the parent company in a geographically and psychologically distant place, which now needs to be enacted in an environment with other role senders, who are both psychologically and physically close. This may create tremendous role strain for the HCN manager, since the input from host country role senders may not cross the cultural boundary (Torbiorn, 1985). The HCN manager cannot totally disregard the signals sent by host country stake holders, but at the same time has to be careful not to offend the parent organization stake holders.

For the lower level employees, especially those below the managerial level, localizing the performance management system would be more appropriate, keeping in view local behavioral norms of work behavior.

The problems magnify when the HCNs are supposed to report to a PCN manager who is also going to be in charge of their appraisal.

What is the mix that is ideal for adopting localization of the predetermined formats of appraisal sent from the parent company? As stated earlier many MNCs use the same formats in subsidiaries as in their domestic company for appraisals. Such standardized versions without localization may be problematic in terms of usage in host country operations due to several reasons:

- The method may not be culturally sensitive as a technique of appraisal (example-360 degrees approach where a superior may be appraised even by a subordinate).
- Translation of forms from English to other local languages may violate local sentiments.
- The use of computer — generated data is affected by the legal restrictions imposed by some host country governments.
- Concerns about personal privacy, etc.

Another situation which may be problematic with regard to performance appraisal is when HCNs are transferred to the parent country operations (Harvey and Buckley, J 1997). For that period, the HCN may be evaluated according to the role behavior expectations communicated by role senders who are physically close, but psychologically distant. The HCNs slowly assimilate the parent country behavior although usually with much difficulty. After sometime when the HCN is transferred back to his/ her home country, he / she may experience difficulty in readjusting their role behavior. This is similar to the culture-shock and reverse culture-shock experienced by expatriates and their families while relocating to and from a foreign country.

Therefore, in general it is quite evident that performance appraisal as a process is indeed problematic in many ways, irrespective of cultural connotations. This is aptly

demonstrated by certain recent researches in the field. For example one study reported a common finding across 10 countries / regions, which was the failure of performance appraisal to fulfill its development purpose. The study formed part of the Best Practices in International HRM project (Gerringer et al. 2002). The 10 countries / regions were Australia, Canada, China, Indonesia, Japan, Korea, Latin America, Mexico, Taiwan, and the U.S.A. The researchers noted that: 'it appears that the potential of appraisal is not fully realized in current practice, not only (as widely believed) in the U.S., but also in most other countries' (Milliman et al. 2002).

Tips for effective expatriate appraisal:

- Stipulate the assignment's difficulty level in an objective manner
- Weight the evaluation more towards the on-site manager's appraisal than towards the home-site manager's distant perceptions of the employee's performance. The on-site manager is more likely to know the pulse of the job better.
- If the home-site manager does the actual written appraisal, he /she may use a former expatriate from the same overseas location to provide background advice during the appraisal process. This will help the home-site manager see things in perspective.
- Modify the normal performance criteria used for that particular position in domestic context to fit the overseas position and characteristics of that particular locale.
- Attempt to give the expatriate manager credit for relevant insights into the functioning of the operation and specifically the interdependencies of the domestic and foreign operations.

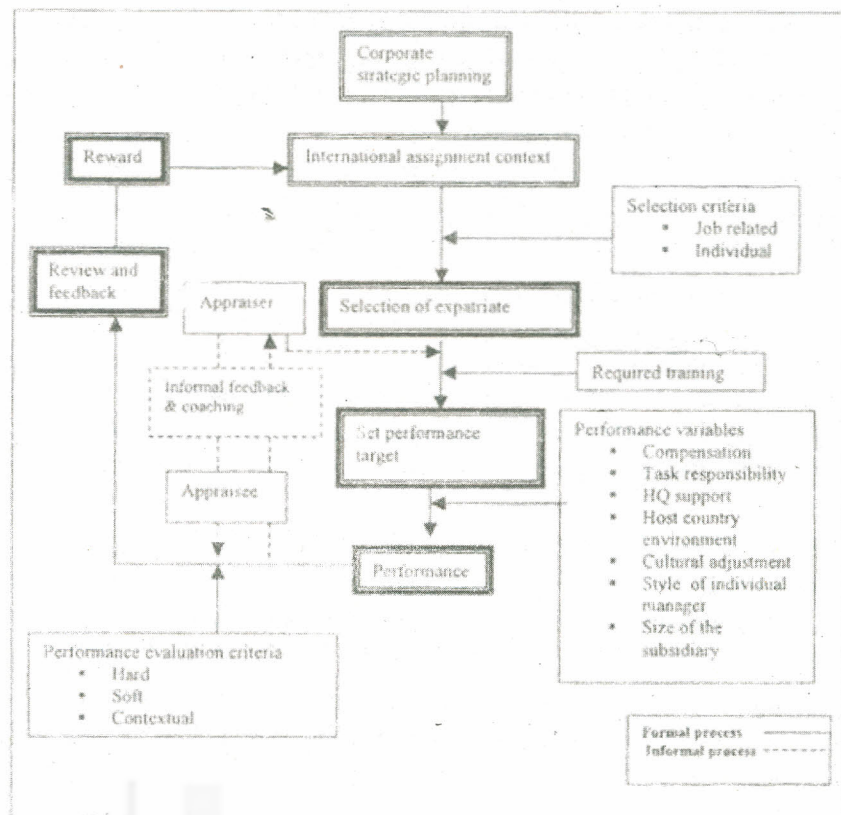
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## 7.8 EXPATRIATE PERFORMANCE MANAGEMENT: A MODEL

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Tahvanainen (1998) has proposed a model to explain how the expatriates' performance should be appraised in the context of the firm's specific strategies and set goals. According to this model, organizational context comprises the organizational structure, performance appraisal system, top management's support, nature of job, size of the subsidiary, styles and skills of the specific expatriate manager and the other employees of the subsidiary. These factors are interrelated in terms of achievement of corporate goals and thus, influence an expatriate's performance too. However, the mediating effect of any of these elements varies according to the strength of its interaction with other elements (Dowling, et. al., 1999). Performance expectation is another important element which is linked with both, company goals and performance appraisals. Performance expectations may be conveyed in informal ways. Day to day management is another critical component of an MNC's organizational context. For example, expatriates working in a situation where continuous customer interaction is required may need informal guidance, feedback and performance evaluation. On the other hand, an expatriate, working in a standardized work environment with well-defined job responsibilities may be benefited with organization-wide standard performance appraisal system. The amount of data which is available to the superior is another influencing factor in an expatriate's performance appraisal. Sometimes, due to lack of data and knowledge about the expatriate's performance, the performance appraisal system becomes inadequate.

In the light of the above, a model of expatriate performance management has been proposed below chart.



Source: Dowling, 2007.

### Expatriate Performance Management

According to this model, an expatriate's performance management should be initiated with the corporate strategic planning and resultant context of an international assignment. Depending on the criteria (both job-related and individual) required, selection of an expatriate should be done, the performance goal must be set, and required training should be provided to him/her. While on an international assignment, the performance variables such as compensation, task responsibility, HQ support, host country environment, cultural adjustment, style of individual manager, and size of the subsidiary act as influencing factors on the expatriate's performance. The performance is reviewed and feedback is given to the expatriate manager and based on the approval, the manager is appropriately rewarded. Again, the next year, the performance management cycle starts with corporate planning. Apart from the above-mentioned formal performance management process, an informal flow of feedback and coaching should also take place between the appraisee and appraiser, which are represented with broken arrows in chart above.

## 7.9 SUMMARY

Performance management in international context is a complex process and requires thorough understanding of the MNC's corporate objectives, individual manager's performance criteria, his/her ability to achieve the target and the conditions specific to the environment in which the manager operates. As discussed in this Chapter, it is virtually impossible to standardize the international performance management system for MNCs, due to many contingent factors that an expatriate may face in a specific foreign country. While MNCs need to devise a company-wide performance management system to standardize its policies, a degree of flexibility should also be built-in to serve the specific requirements of specific roles of the expatriates in the

host country locations. Formal performance feedback and review should be complemented by the continuous informal coaching and feedback. Proper training should be provided to the managers who do the appraising of PCN, TCN or even HCN. There should be a regular monitoring to check and balance the system and the employees should be well communicated about this mechanism.

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## 7.10 SELF-ASSESSMENT QUESTIONS

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1. In the section on the volatility of the global environment, several world events were listed that have had profound implications for multinationals' global and local strategies. What were the implications for multinationals of the SARS epidemic? Can you identify specific HR implications?
2. Discuss the major factors associated with appraisal of expatriate managerial performance.
3. Why is it important to include hard, soft and contextual goals when assessing managerial performance?
4. In what ways would the role of a manager working in a non-standard international assignment arrangement differ from that of a typical expatriate manager?
5. What do you mean by hard, soft and contextual criteria?
6. Explain the model of expatriate performance management.

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## 7.11 FURTHER READINGS

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# UNIT 8 INTERNATIONAL COMPENSATION MANAGEMENT

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## Objectives

After completion of this unit you will be able to:

- Understand the intricacies of Global Compensation Management.
- Understand what is 'Total Reward System'.
- Understand how cultural factors affect compensation management.
- Understand the different approaches to compensation management.
- Understand the taxation issues and the tax treaties.

## Structure

- 8.1 Introduction
- 8.2 Global Compensation Management
- 8.3 Total Reward System
- 8.4 Incentive Pay (Pay for Performance)
- 8.5 Cultural Factors
- 8.6 Different Approaches
- 8.7 Compensation Management of HCNs
- 8.8 Taxation Issues
- 8.9 Summary
- 8.10 Self-Assessment Questions
- 8.11 Further Readings

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### 8.1 INTRODUCTION

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Compensation is the benefit received by an employee in return for his contribution to the organization. The benefits can be monetary or non-monetary in nature. It systematically rewards employees for the work performed by them. It establishes a point at which the objectives of the organization and employee meet. Compensation management is an organized HR practice that balances the employer-employee relationship thereby motivating the employees and increasing organizational effectiveness. A good compensation management policy enables the recruitment of the right talent and helps in retaining them. Moreover, it drives the employees to push the boundaries in their effort to contribute to organizational objectives.

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### 8.2 GLOBAL COMPENSATION MANAGEMENT

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It is very essential for MNCs to have a sound Global compensation management policy rather than taking ad hoc decisions on a case to case basis. The latter does not suit a highly professional international firm and can lead to disasters as far as the management of key human resource personnel is concerned.

The global compensation management policy should be in line with the overall corporate policy. More specifically, it should help the organization achieve its goals in

the international arena. For example, for a smaller firm which has just forayed into international business, the priority will be to keep its costs down. Hence they cannot afford to pay exorbitant sums as salary to its employees; but they can still satisfy their work force by providing non-monetary benefits. Another option in front of relatively new companies is to offer "Employee Stock Options" which can be vested at specified intervals. This will avoid the need of immediate incurring of expenditure even while encouraging the employees to stay on the job to reap future benefits. Further, it will create a sense of ownership among the employees and will therefore induce more sincere efforts to achieve the organizational objectives and thereby improve the valuations and the stock price of the company. Such sincere efforts are exactly what a relatively new company requires to get into the growth trajectory. This is not to imply that Employee Stock Options are the prerogative of 'new' companies alone. Many established firms, both in the local and international arena, use this reward system to great effect.

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### 8.3 TOTAL REWARD SYSTEM

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A total rewards system is a modern compensation strategy that incorporates a holistic view of employee remuneration. Adopting this system improves the company's reputation as being employee-friendly and thus helps in attracting and retaining talented employees. This approach is especially significant for MNCs since their employees are spread over different continents and in the absence of a total compensation 'package' which takes into account the peculiarities of each location, and the taxation and exchange rate issues, the employees are unlikely to be satisfied and encouraged. The package should contain both Financial and Non-financial elements. Examples of financial rewards are Salary, bonus etc. whereas examples of Non-financial rewards are Recognition, Flexible work hours etc.

HR Managers used to give attention to the financial rewards alone to the extent of almost ignoring the non financial rewards. But now things have changed and careful thought is going into the designing of the non financial reward system, which has the potential of attracting candidates from the internal and external job market for foreign assignments. Needless to say, many of the non financial rewards can be provided at no cost or at negligible costs. For example, a company can stress upon the attractiveness of a European country like, say Switzerland, from a sight-seeing point of view, so as to make the assignment look more appealing even if the increase in direct monetary benefits is marginal. Companies can also adopt a strategy of giving preferential treatment in matters related to 'Promotions' to employees who accept tough overseas assignments. Some companies structure this into their 'Promotion Policy' itself whereas in certain other companies the employees know from experience that those who are more mobile are favoured during promotion processes although the company does not make a written commitment to that effect.

The expatriate employees are generally compensated for the hardships they face in the new country. The hardships can include remoteness from the home country, war/war-like situations, lack of amenities etc. There may be other more subtle irritants like racial discrimination and cultural differences. The more pronounced hardships are more or less compensated for by adding a "hardship premium" as a separate component to the employee's salary.

The MNCs usually try to maintain Purchasing Power Parity (PPP) because cost of goods and services vary greatly from one country to another. Purchasing Power Parity is maintained by making adjustments in the salary to enable the employees to buy goods and avail services of the same quantity and quality that they would have done in their country of origin. It is quite an extensive and complicated task to determine Purchasing Power Parity as several factors like housing, child's education,

spouse's education (if he/she decides to continue studies to make up for the break in their careers caused by the spouse's foreign assignment), entertainment, food, clothing etc. are to be taken into consideration and hence more often than not this task is left to the experts. There are many analyst firms who do this work and provide 'cost of living' information on a global basis.

To neutralize the tax differences between two countries, certain firms deduct the tax that the employee would have paid in his own country from the salary of the employee. The firm, then, pays the taxes in the host country on behalf of the employee. House Rent Allowance is also generally treated in a similar manner by some companies. They provide free accommodation to the expatriate employee or pay an amount equal to the rent prevailing in the host country. An amount equal to the rent prevailing in the home country will be deducted from the expatriate's salary (if House Rent Allowance was originally not a component of the salary in the home country).

Tax equalization efforts made by MNCs may appear unimportant, but the reality is that this aspect represents one of the costliest parts of the total remuneration package.

'Foreign assignment allowance' is more a reward than a compensation for hardships. It is a reward for accepting subtle, intangible difficulties like climate changes, language barriers, culture shocks etc. It is generally administered in addition to the 'hardship premium' although some people consider it the same as 'hardship premium'.

Some firms follow the 'going rate' policy whereby the expatriate's salary is based on the compensation structure prevailing in the country where the expatriate is working. Obviously, this approach will not work in cases where the very intention of the firm is to cut costs by bringing in low cost labour from countries like India (For example an Indian IT professional working in US for an MNC firm). Conversely an American executive posted in India is unlikely to be satisfied if he is paid 'Indian' salary. In such cases, the MNCs who follow 'going rate' approach usually provide additional benefits to the executive.

#### Activity 1

Fix up an appointment with a foreign MNC executive working in India and find out if their perceived hardships of working and staying in India are adequately compensated for. If yes, find out how.

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### 8.4 INCENTIVE PAY (PAY FOR PERFORMANCE)

Incentive Pay, which is also known as "Pay for Performance" rewards specific performance results rather than the number of hours spent at work. It sounds very logical, but unfortunately till recently, not many companies used to pay for performance. But today, most MNCs have a variable pay system where atleast a part of the total pay is dependent on the performance of the executive. Pay for performance assumes more importance during times in which the company needs extraordinary performance (to foray into a new market like a foreign country, to implement change etc). Expatriate assignments are costly and hence HR managers always keep their fingers crossed while observing the overseas performance of their

executives. It is also true that 'expatriate failures' are not very uncommon. Given the circumstances, it is imperative that the expatriates should be encouraged to perform better by making a considerable portion of their pay contingent on their performance. In fact, MNCs don't mind loosening the purse strings if the expatriate achieves what he is told to achieve for his company.

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## 8.5 CULTURAL FACTORS

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Local culture is of significant importance in predicting the expectations of the employees as far as remuneration is concerned. Americans easily see the inherent logic in 'Pay for performance' systems whereas in many Asian countries people may find it difficult to digest that age and tenure are given less importance than tangible results! In countries where Power distance at the work place is more, the reward system should reinforce the prevailing system rather than upset it. In a geographically vast country, say in India or the US, sub cultures are equally important and should be carefully analyzed to design an optimum compensation structure. For example, the compensation policies that may work well with an elite cosmopolitan workforce of a metro city like Delhi may fail miserably if applied mindlessly in a state like, say Kerala, where trade unionism and anti imperialist feelings are strong even today. Exorbitant pay and vulgarly huge bonuses paid to top executives can only fan such antagonist feelings whereas it may be perfectly acceptable in other parts of the country.

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## 8.6 DIFFERENT APPROACHES

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Some of the approaches commonly followed by MNCs in compensating their expatriate employees are:-

- i) Balance sheet approach
- ii) Host pay system
- iii) Higher of Home or Host
- iv) Cafeteria Plans.
- v) Lump sum payments
- vi) Negotiation approach.

### Balance sheet approach

As per ORC Worldwide's survey of international assignment policies and practices, almost 80% of MNCs throughout the world prefer the balance sheet approach to Expatriate compensation management. This approach tries to balance out the hardships faced by the expatriates and potential disincentives by providing additional allowances and benefits like hardship premiums, cost of living allowances, tax equalization schemes etc. The basic objective of this approach is that the expatriates should have the same purchasing power as their peers in the home country. In its purest form, the balance sheet approach will ensure that the expatriate *neither gains nor loses* financially due to the overseas assignment. But most MNCs practice different variations of the balance sheet approach where losses are prevented but not the gains. In other words, the expatriates, more often than not, are well off during the overseas assignments.

### Host Pay System

This approach saves the MNC from undertaking extensive surveys/analyses and complex calculations since the same remuneration package is administered to

everyone working in the host country, irrespective of where they come from. Hence the locals and the expatriates are paid at the same level. This approach is beneficial for expatriates from a lower salary country (For example, an Indian working in the US), but will be considered punitive by a person from a higher salary country.

### Higher of home or host

In this approach, the expatriate is paid the home country salary or the host country salary, whichever is higher.

### Cafeteria Plans

It allows employees to choose between different types of benefits to formulate a plan on their own, similar to the ability of a customer to choose among available items in a cafeteria. These plans are useful when there is considerable diversity within workforce. For example, the benefits needed by a family of four will be different from those required by a 'single' expatriate.

### Lump sum payments

In this approach, lump sum payments are made to the expatriates to compensate the additional expenditure they will be forced to incur owing to the overseas assignment. This reward system is easy to administer since it avoids manipulation of the salary structure.

### Negotiation approach

Although there is widespread consensus that standardized compensation management systems are better than ad-hoc measures of providing remuneration, MNCs need to be flexible in certain cases where it will be beneficial for the MNC and the expatriate executive to negotiate a deal which takes into account the unique needs of the executive and the special situations prevailing in the host country.

#### Activity 2

Meet the HR manager of an MNC in your city and find out their approach to compensating its global employees.

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## 8.7 COMPENSATION MANAGEMENT OF HCN'S

While deciding on a compensation structure of host country nationals working in the host country, the local culture and practices and the prevailing government rules and regulations are to be taken into account. At the same time, due consideration is to be given to the general international compensation management policy of the company. A problem often faced by MNCs in this regard is the ill feelings generated among HCNs as a result of the disparity in compensation packages of the HCNs and the expatriates from the country where the Headquarters is situated. In many companies, they work together and exchange information about the compensation packages among other things. More often than not, the expatriates will be earning a much higher salary than their host country peers for doing more or less the same work. A work around for this problem will be to pay more or less the same salary to both the HCNs and the expatriates and to reward the expatriates at a later stage, say when they repatriate to their home countries. But this will not work with expatriates who

continue to stay in the foreign location for extended periods of say, above three years. However the latest trend is in favour of 'Flexpatriates', who are frequent flyers who travel on short notice for shorter time durations while maintaining their family and personal lives at the home-country location.

**Activity 3**

Meet the HR manager of an MNC in your city and discuss about the disparity, if any, in the remuneration paid to Indian employees and foreign executives. Find out whether the disparity is giving rise to disharmony among the workforce.

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**8.8 TAXATION ISSUES**

**Double taxation** is the systematic imposition of two or more taxes on the same income (in the case of income taxes), asset (in the case of capital taxes), or financial transaction (in the case of sales taxes). It refers to taxation by two or more countries of the same income, asset or transaction, for example income paid by an entity of one country to a resident of a different country. Of the three types of taxes mentioned above, it is the Income Tax that is applicable in the case of expatriates. The double liability is often mitigated by tax treaties between countries.

Tax treaties vary from one another in terms of content and enforceability. However, almost all treaties consider it inequitable that a person may be obliged by domestic laws to pay tax on his gains locally and also in the country in which the gain was made. This perception of inequity is the very reason why bilateral double taxation agreements are made between countries, in the absence of which expatriates will have to pay taxes twice.

India has comprehensive Double Taxation Avoidance Agreements (DTAA) with many countries across the globe. This means that there are agreed rates of tax and jurisdiction on specified types of income arising in a country to a tax resident of another country. Under the Income Tax Act 1961 of India, there are two provisions, Section 90 and Section 91, which provide specific relief to taxpayers to save them from double taxation. Section 90 is for taxpayers who have paid the tax to a country with which India has signed DTAA, while Section 91 provides relief to tax payers who have paid tax to a country with which India has not signed a DTAA. Thus, India gives relief to both kinds of taxpayers. (Source: Wikipedia)

The USA has income tax treaties with many countries. A tax treaty is very complex, but it invariably has provisions to benefit an American living and working outside the United States. It allows credits for foreign income taxes against US income taxes thereby reducing or eliminating double taxation of the salary earned by American expatriates. This credit, usually fully offsets the US tax obligations although the expatriate should still file an IT return in the US.

As per Indian Income Tax rules, the 'residential status' of an employee is important in determining the tax provisions that apply to his income earned outside the country. Under Section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following basic conditions:

- (a) He is in India in the previous year for a period of at least 182 days or,
- (b) He is in India for a period of at least 60 days during the relevant previous year and at least 365 days during the four years preceding that previous year.

continue to stay in the foreign location for extended periods of say, above three years. However the latest trend is in favour of 'Flexpatriates', who are frequent flyers who travel on short notice for shorter time durations while maintaining their family and personal lives at the home-country location.

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- (a) He is in India in the previous year for a period of at least 182 days or,
- (b) He is in India for a period of at least 60 days during the relevant previous year and at least 365 days during the four years preceding that previous year.

In case an Indian citizen leaves India for employment abroad in any year for the purpose of employment (or where an individual, who is a citizen of India, leaves India as a member of the crew of an Indian ship), or where an Indian citizen or a person of Indian Origin, who has settled abroad, comes on a visit to India in the previous year, shall not attract clause (b) of the basic conditions. Therefore, such individuals may stay in India upto 181 days in a given previous year without becoming resident in India for that previous year. An individual who does not satisfy either of the above basic conditions is non-resident for that previous year.

A resident individual may further be classified into (i) resident and ordinarily resident (ROR) and (ii) resident but not ordinarily resident (RNOR). A resident individual is treated as ROR in India in a given previous year, if he satisfies the following additional conditions:-

- 1) He has been resident in India in at least 9 out of 10 previous years (according to basic conditions noted above) preceding the relevant previous year; and
- 2) He has been in India for a period of at least 730 days during 7 years preceding the relevant previous year.

An individual becomes ROR in India if the individual satisfies at least one of the basic conditions and both the additional conditions. An individual who is resident in India but does not satisfy both the additional conditions is RNOR for that previous year.

The scope of taxation in India on the basis of the Income Tax Act in accordance with Section 5 of the Act is as depicted in the table below:

	Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
Income received or deemed to be received in India	Taxable	Taxable	Taxable
Income accruing or arising or deemed to accrue or arise in India	Taxable	Taxable	Taxable
Income deemed to accrue or arise outside India from a business controlled of profession set up in India	Taxable	Taxable	Not Taxable
Other income accruing or arising outside India	Taxable	Not Taxable	Not Taxable

#### Activity 4

Consider 5 of your friends/relatives who regularly go abroad on short term/long term job assignments. Determine whether, as per Income Tax rules, they can be considered an NR (Non-resident), ROR (Resident and ordinarily resident) or RNOR (Resident but not ordinarily resident)

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## 8.9 SUMMARY

Compensation can be financial or non-financial in nature. MNCs need to take into account local rules and regulations and the host country culture before finalizing a compensation package. The compensation policy should be in line with the overall

corporate policy and should help in achieving the organizational objectives. During the early years of globalization, adhoc decisions used to be taken for compensation management, but now most of the MNCs have well defined global compensation policy in place. Total reward system and Pay for performance are being increasingly used by MNCs these days. Different MNCs follow different approaches to global compensation management. Some of the important approaches are Balance sheet approach, Host pay system, higher of home or host, Cafeteria plans, lump sum payments and negotiation approach. Double taxation is a serious issue faced by the expatriates and MNCs invariably consider this aspect along with exchange rate variations while formulating a Total Reward Structure.

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## 8.10 SELF-ASSESSMENT QUESTIONS

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- 1) Define 'Compensation'. Discuss in detail about Global compensation management.
- 2) What is Total Reward System?
- 3) What is meant by 'Pay for performance'? Is there any possible downside for this approach.
- 4) Describe briefly about any three compensation management approaches adopted by MNCs.
- 5) What is meant by 'double taxation'? What is the necessity of tax treaties between countries, from an expatriate's point of view?

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## 8.11 FURTHER READINGS

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### Website Resources:

[www.incometaxindia.gov.in](http://www.incometaxindia.gov.in)

[www.worldatwork.org](http://www.worldatwork.org)

**NOTE**



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MPDD-IGNOU/P.O.0.5T/March, 2015 (Reprint)



ISBN : 978-81-266-6431-3