International Human Resource Management

For students of International Business

B.com (Sem VI), Sri Aurobindo College

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Definition

- International Human Resource Management is the process of selecting, training, developing, and compensating personnel in accordance with the firm’s overall strategy.
- It is the process of managing people across international boundaries by Multinational Corporations (MNC).
- The aim is to match people with firm’s strategy, structure, and controls.
- It is often found that staff required to effectively manage international operations (or an MNC) are quite different from the one required to effectively manage domestic operations (or a domestic company).

Sources of HRM for a multinational company (MNC)

- There are three basic sources of human resources for a MNC-
  - *Home country nationals (Expatriates)*- Expatriates are residents of MNCs home country who may be residents abroad. Example- Indian residing in London. Tata Steel hires an Indian resident as a manager in its subsidiary in London.
  - *Host country nationals*- Residents of host country. Example: Britisher in London. Tata Steel hires a British National as a manager in its subsidiary in London.
  - *Third country nationals*- Citizens of countries other than home (MNCs home) and host country (where MNC invests). For example: An American in London. Tata Steel hires an American national residing in London, as a manager in its subsidiary in London.

Activities involved in IHRM

- The activities involved in IHRM are the same as you studied in HRM. They are as follows-
  - Human resource planning
  - Recruitment
  - Selection
  - Induction and Orientation
  - Training
  - Development
  - Compensation
- We will discuss some of them in the subsequent slides

Recruitment and Selection

- An MNC can follow any of the following 4 approaches while recruiting and selecting staff for its overseas subsidiaries-
  - Ethnocentric Approach
  - Polycentric Approach
  - Geocentric Approach
  - Regiocentric Approach
- The approach followed by the company reflects its ideology.

Home Country (Parent) and Host country

Before we understand these approaches, it is important to be clear about what are home and host countries.

- Suppose an Indian company such as Infosys opens a branch office or a subsidiary in the United States.
- We have learned the difference between branch and subsidiary in earlier classes.
- In this case: Home country is India. Also called parent country. Infosys corporation in India is the parent entity or parent corporation.
- Host country is the United States.

Categories of employees

- The employees working in a foreign facility or office of an international company into three categories.

  - **Expatriate**, which is a citizen of the company's home country working in a foreign country. An Indian working in the US subsidiary of Infosys.

  - **Host country national-** An American citizen working in the US subsidiary of Infosys.

  - **Third country national-** A German citizen residing in the US and working in the US subsidiary of Infosys (which is an Indian company)

Ethnocentric Approach

- Under this approach, a firm prefers to fill key positions in the overseas subsidiary or branch with home country nationals.
- The use of ethnocentric approach is recruitment is a reflection of firm's ethnocentric orientation.
- Ethnocentric orientation- Thinking that one's home country is superior to the rest of the world.
- The firm believes that parent company nationals are better equipped and more trustworthy than host country nationals.
- Firms which are transferring core competencies through a foreign operation can do it effectively with the help of staff familiar with organizational processes and routines that are associated with these competencies.
- Follow the link to understand what is a core competency: https://www.youtube.com/watch?v=M9Rot4AWOWY
- For example: Japanese MNCs prefer to use home country managers for their senior staff positions.

Ethnocentric Approach

- Advantage: Maintaining unified corporate culture; ease of coordination due to familiarity of the behaviour, value and attitudes of home country nationals (expatriate managers); language barrier is not an issue.
- Disadvantage: Cultural myopia: home country managers may not have knowledge about the local culture, tastes and preferences of locals in foreign market, host country nationals may develop the feeling of resentment if they are denied the opportunity of taking on leading roles in the organization.

Polycentric Approach

- Under this approach, firms prefer to fill key positions in its overseas subsidiary or branch with host country nationals.
- Home country nationals occupy key positions in parent company- i.e. parent headquarters- which is located in the home country.
- The use of polycentric approach is recruitment is a reflection of firm’s polycentric orientation.
- Polycentric Orientation: Belief that overseas market is different and local people know the local environment better than outsiders and hence they are best suited to deal with local conditions.
- Advantage: Quick and flexible responsiveness as local managers react to market needs in the areas of product, pricing, promotion, and managing rapidly changing business environment; Greater sensitivity to cultural issues and continuity in the management of subsidiaries.
- Disadvantage: Barrier between home and host country managers such as language barriers, national loyalties, and a host of other cultural differences.

Geocentric Approach

- This approach is based on the notion that the best people should be employed, regardless of their nationality.
- Geocentric orientation: A company with geocentric orientation views the entire world as a single market and develops a standardized marketing mix, projecting a uniform image of the company and its products for the global market. The business of the geocentric multinational is usually characterized by sufficiently distinctive national markets in which the ethnocentric approach is unworkable, and in which the importance of learning-curve effects in marketing, production technology and management makes the polycentric philosophy substantially sub-optimal.
- Advantage: It ensures optimum utilization of the firm’s human resources and helps it to develop a global workforce that can work anywhere in the world, under any cultural constraints; helps company enjoy the benefits of local responsiveness and cultural adaptation.

Geocentric Approach

- Disadvantage: Expensive policy as it entails huge cross-cultural training and orientation, cost of relocation and immigration.
- The adoption of this approach may be limited by local laws and polices that require foreign subsidiaries to employ local staff.

- Follow this link for more on these approaches: https://www.youtube.com/watch?v=6lRJPG4c8lE

Regiocentric Approach

- Under this approach, the staffing policy is varied to suit particular geographical areas.
- This policy is suited in geographical areas that are culturally similar.
- For example: Firms operating Middle East and North Africa region find it useful to employ Muslim staff as it creates a sense of cultural affinity and eases the atmosphere in the region.
- This advantage of this policy is that it reflects the sensitivity of the company to local conditions.
- Regiocentric orientation: A company with regiocentric orientation views different regions as different markets. Regions with important common marketing characteristics are regarded as a single market, ignoring national boundaries. Strategy integration, organizational approach and product policy tend to be implemented at a regional level.

Follow the next few slides for a revision on orientations of the company: This is called as EPRG framework.

International Orientations (EPRG Framework)

- Transnational corporations vary widely in the degree and nature of their international orientations.
- International orientations reflect the attitude or strategic predisposition of a TNC towards doing things in a certain way. The analysis provided by Wind, Douglas and Perlmutter within the EPRG frame work is helpful in understanding the international orientation of firms in international business.
- The EPRG framework identifies four types of attitudes or orientations towards internationalization that are associated with successive stages in the evolution of international operations. These are: (1) ethnocentrism, or home-country orientation, (2) polycentrism, or host-country orientation, (3) regiocentrism, or regional orientation, and (4) geocentrism, or world orientation. These stages reflect the philosophy of the company in planning its international operations and the strategies based on it.

International Orientations (EPRG Framework)

- **Ethnocentric Orientation**
  - Ethnocentrism is the belief that the domestic or home-country culture is superior to any other.
  - A TNC with an ethnocentric orientation relies on the values and interests of the parent company in formulating and implementing its internationalization plans.
  - In the ethnocentric company, overseas operations are viewed as secondary to domestic operations, and primarily as a means of disposing “surplus” domestic production.
  - The firm’s international operations, therefore, take the form of an export department or international division and are manned by domestic personnel or export agents. As international marketing is normally characterized by the extension strategy, the domestic product mix is used in the foreign market too.
  - As it entails minimal risk and commitment to overseas markets (no international investment is required, and no additional selling costs incurred, with the possible exception of higher distribution costs), the ethnocentric position is appropriate for a small company just entering international operations or for companies with minimal international commitments.

International Orientations (EPRG Framework)

- **Polycentric Orientation**
  - As a company spends a significant amount of time in international markets, it begins to recognize the importance of inherent differences in various markets, giving rise to a polycentric attitude.
  - It recognizes the fact that local personnel and techniques are best suited to deal with local market conditions, so it emphasizes decentralizing of control and granting of autonomy to its overseas units.
  - Foreign market operations are carried out through independent subsidiaries which have independent control over its marketing objectives and plans. This leads to a strategy of market segmentation in formulating the marketing strategy. Local laws, customs and cultures are noticed, and great care is taken to understand the local way of doing business.
  - This usually results in the maximum degree of geographic decentralization as local managers are recognized as being psychologically close to markets, environments and customers. Under polycentrism, marketing is normally characterized by adaptation strategy. Polycentrism, thus, is the opposite of ethnocentrism.

International Orientations (EPRG Framework)

- **Regiocentric Orientation**
  - A regiocentric company views different regions as different markets.
  - Regions with important common marketing characteristics are regarded as a single market, ignoring national boundaries.
  - Strategy integration, organizational approach and product policy tend to be implemented at a regional level.
  - Objectives are set by negotiation between headquarters and regional headquarters on the one hand, and between regional headquarters and individual subsidiaries on the other.

International Orientations (EPRG Framework)

- **Geocentric Orientation**
  - A geocentric company views the entire world as a single market and develops a standardized marketing mix, projecting a uniform image of the company and its products for the global market.
  - The business of the geocentric multinational is usually characterized by sufficiently distinctive national markets in which the ethnocentric approach is unworkable, and in which the importance of learning-curve effects in marketing, production technology and management makes the polycentric philosophy substantially sub-optimal.
  - There is improved coordination and control under the regiocentric and geocentric orientations as well as a set of standard policies for the organization. However, the costs of collecting information and administering policies on a worldwide scale makes the geocentric approach more expensive compared to the regiocentric attitude. Further, national differences may constrain and restrict multinational operations and make the global market approach unpractical.