

# International Human Resource Management

For students of International Business  
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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 in 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 framework 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.

# Training and Development

You must have heard of these terms in your Human Resource Management classes.

- **Training** involves bringing about positive changes in knowledge, skills and attitudes of the employees for improving their performance on the specific job at hand. Training focuses on imparting job-related technical skills only.
- **Development**, on the other hand, is concerned with the growth of employees in all respects. Its purpose is imparting advanced knowledge and competencies among the employees. Development is not job specific. While it helps in improving performance on the present job, it also prepares employees for taking up higher positions in the organization.
- While training and development are different but they are related to each other.
- Specific to the context of international business, training is concerned primarily with the acquisition of skills (*for e.g. learning a language*), but may also involve acquisition of awareness (*for e.g. awareness of different cultures via cultural training*).

Development is the term used to describe a process of change through the acquisition of knowledge *via some form of education programme* (such as specializing in international business management, or specializing in Chinese or Japanese studies), which may also include some training.

# Training for expats

By now the term expats must be clear to all of you. If not, go back to Part 1 of this chapter.

- Training for expat employees takes the form of-
  - Cross-cultural training
  - Language training
  - Specific skills training
- Cross-cultural training
  - *Understand: To understand this, just assume that you have a friend from Italy coming to stay in India. This friend knows nothing about Indian culture. As you all know, western culture is quite different from Indian. What all do you think your friend needs to know about India and Indian culture in order to manage living here.*
  - *Think and write down all the information that you would provide to your friend.*

*So, what is cross-cultural training?*

*It entails learning about the host country's culture, history, politics, economy, religion, and social and business practices. There are two facets of cross-cultural training.*

# Training for expats

- First facet involves giving the expats information about the living conditions, cultural awareness and the country's macroeconomic conditions.
- Second facet consists of cognitive and behavioural techniques to acquire skills such as relationship building, cross-cultural communication ([remember we discussed this while studying cultural environment. If not, refer to your class notes](#)), and negotiation.
- **Language training:** As the name suggests, this involves training expats on speaking, writing, and understanding foreign language. Proficiency in a foreign language is a critical factor in the effective adjustment of expatriates in the host country. Since the beginning of the globalization, this has meant proficiency in English as it has been the primary language used in business dealings. However, with the emergence of business opportunities in Latin America and China, there has been an increasing emphasis on learning Spanish and Mandarin. Knowledge of the local language enhances communication and make the process of settling in the foreign country easier and more comfortable for the expat.

*Think: Imagine how a Japanese expat trying to settle in India. Knowledge of English language is helpful beyond doubt. But, you can understand the benefit of being able to have conversation in Hindi or regional languages, e.g. Punjabi. Doesn't it help??*

# Training for expats

- Specific skills training: The expat as a manager needs specific skills of communication, negotiations skills (the manager has to negotiate with a lot of parties both inside and outside the organization), training in performance appraisal etc.
- We will take example of performance appraisal- which you all know is an important management function- to understand specific skills training.
- If you don't remember what performance evaluation is, see the following definition:
- Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development. It is usually done by superiors, but there are methods that involve 360 degree evaluation of a worker- superiors, subordinates and peers.
- Performance appraisal is an important aspect of training and development in international business. The problems faced in performance appraisal in international business are not usually encountered in the domestic business.
- These biases usually arise due to bias arising out of the expatriate manager's location. Expatriate managers are assessed by the superiors in both the host country and the home country.

# Training for expats

- Host country assessors may be negatively biased by their cultural frame of reference and set of expectations.

*Think: Imagine a Spanish Manager assessing the performance of an Indian expat. The cultures of the two countries are too different and there are bound to be biasedness. People usually take different as wrong, but there is a difference in being different and being wrong. Isn't there?*

- Home country assessors may be negatively influenced by their distance and lack of experience or knowledge about the host country. While their cultural frame of reference may be the same as that of the person being assessed (i.e. the expat), but their expectations from the expats may or may not be realistic. Home country assessors rely on facts and figures in making their assessment: facts and figures do not take account of the “soft” variables associated with working in another culture.
- It is usually very difficult for an expatriate manager to counter an adverse performance appraisal arising from these biases. This often becomes the cause of frustration in overseas postings. Companies that are aware of this, focus their performance evaluation on factors that are within the scope of control of the person being evaluated. This itself presents difficulties because there are many types of decisions over which expatriate managers have little or no control.

# Compensation

- Compensation is the total cash and non-cash payments that is given to an employee in exchange for the work they do.
- What does a compensation programme of an MNC focused on achieving?
- It focuses on attracting and retaining qualified employees, facilitation of transfer between the head office and its affiliates, creation of consistency and equity in compensation, and maintaining competitiveness.
- You will recall that international firms may adopt an ethnocentric, polycentric, regiocentric or geocentric approach. The firm's strategic approach combined host-country laws, regulations and cultural traditions determine the compensation policy.
- You will also recall that one aspect of the geocentric approach is the creation of a pool or cadre of international managers who are, theoretically at any rate, capable of being employed anywhere in the world. The geocentric approach leads to more compensation problems than the other approaches.

# Compensation- Compensating an expat

- In terms of cost, the cost of employing an expatriate is almost three to five times the cost of a domestic hire.
- Expatriate compensation usually consists of the following elements:
  - Salary: This is the basic pay, including incentives such as profit sharing and bonus plans, and may be cash-based or a deferred payment
  - Housing allowance: The expat may be given an allowance, company accommodation or the facility to rent a house. All these are provided at a level equivalent to the expats living standard in his home country.
  - Service allowances and premiums: These allowances are meant to cover the differences in expenditure and cost of living between home and host country. These include the cost of relocation, children's education and home country visits. The allowance is based on the expected level of hardship and the job type.
  - Tax equalization: The allowance is meant to provide an adjustment to the expat based on tax rates in the home country. Depending on tax treaties between the home and host country and duration of stay, the expat may be taxed on income tax rules of both home and host country. This allowance helps to smooth out the tax liability for the expat.

# Compensation- 3 approaches or policies

- There are three basic approaches or policies to international compensation. These policies are:
- **Home-based policy:** This policy links the base salary for parent company nationals (PCNs) and third country nationals (TCNs) to the salary of their relevant home country.
- For example, a US executive transferred to France would have a compensation package based on the US base salary rather than that of France.
- All PCNs and TCNs are treated equitably in relation to their home countries, but they may be paid different amounts for doing the same work. For example, in the London branch of an American bank, a US expatriate and an Australian (TCN) may perform the same banking duties, but the American will receive a higher salary than the Australian because of differences in their respective home-country base salary levels.
- This policy is usually applicable in temporary assignments where the number of people from a single nationality is usually low and there is a predominance of international staff at top-level positions in the host country.
- It facilitates mobility of personnel and repatriation to the home country easy. However, it creates discontent within the organization as staff at the same organizational position but from different parts of the world paid differently.

# Compensation- 3 approaches or policies

- **Host-based policy:** Under this policy, the base salary is linked to the salary structure of the host country but supplementary allowances for cost of living, housing, schooling and so on are linked to the home-country salary structure.
- This policy is attractive to TCNs where host country salaries are greater than those in their home countries, but unattractive to expatriates whose home-country salary levels are greater than those of the host country.
- The policy is used when international assignments are of an indefinite duration in a location where the compensation is high and host-country local staff occupy a large number of top positions. It is an easy system to administer as all employees get equivalent compensation, and leads to a happier workplace.
- The system is at risk when there are huge fluctuations in exchange rates. It is also an expensive policy, as host country salaries improve as a result of improvements in living standards.

# Compensation- 3 approaches or policies

- **Hybrid compensation policy:** This is something of a compromise between the home based and host-based policies, whereby expatriates working in their home regions (for example, an Italian in Germany) are compensated at lower levels than those working in regions far from home, for example, an American working in Saudi Arabia.
- The policy is equitable and enables the transfer and development of an international management cadre.
- But it is complicated to administer and difficult to communicate.