



Challenges and Opportunities in International Human Resource Management within Multinational Enterprises

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Abstract

Global human resource management is a vital component of implementing global strategy and is increasingly being recognized as a major determinant of success or failure in international business. Alternate philosophies of managerial staffing abroad are the ethnocentric, polycentric, egocentric, and global approaches. The causes of expatriate failure include the following: poor selection based on inappropriate criteria, inadequate preparation before assignment, alienation from headquarters, inability of manager or family to adapt to local environment, inadequate compensation package, and poor programs for career support and repatriation. The three major areas critical to expatriate preparation are cultural training, language instruction, and familiarity with everyday matters. Common training techniques for potential expatriates include area studies, culture assimilators, language training, sensitivity training, and field experiences. Appropriate and attractive compensation packages must be designed by international human resource management (IHRM) staffs to sustain a competitive global management cadre. Compensation packages for host-country managers must be designed to fit the local culture and situation, as well as the firm's objectives.

1. Introduction

This paper's opening profile describes a contemporary problem of where to source employees as service jobs have now joined manufacturing jobs in the category of "boundary less" human capital. This is a complex issue for human resources (HR) managers as they seek to support strategic mandates. This contemporary competitive issue is just one of the many challenges to the human resource management function of any domestic or international. However, given the greater complexity of managing international operations, the need to ensure high-quality management is even more critical than in domestic operations. A vital component of implementing global strategy is international human resource management (IHRM). IHRM is increasingly being recognized as a major determinant to success or failure in international business, in a highly competitive global economy, where the other factors of production capital, technology, raw materials, and information are increasingly able to be duplicated, "the caliber of the people in an organization will be the only source of sustainable competitive advantage available to U.S. companies. Corporations operating overseas need to pay careful attention to this most critical resource one that also provides control over other resources. Most U.S. multinationals underestimate the importance of the human resource planning function in the selection, training, acculturation, and evaluation of managers assigned abroad. Yet the increasing significance of this resource is evidenced by the numbers. More than 37,000 multinational corporations (MNCs) are currently in business worldwide. However, recent advances in technology are enabling firms to effectively and efficiently manage the IHRM function and maximize the firm's international management cadre. At the first level of planning, decisions are required on the staffing policy suitable for a particular kind of business, its global strategy, and its geographic locations. Key issues involve the difficulty of control in geographically dispersed operations, the need for local decision making independent of the home office, and the suitability of managers from alternate sources. The interdependence of strategy, structure, and staffing is particularly worth noting. Ideally, the desired strategy of the firm should dictate the organizational structure and staffing modes considered most effective for implementing that strategy. In reality, however, there is usually considerable interdependence among those functions. Existing structural constraints often affect strategic decisions; similarly, staffing constraints or unique sets of competences in management come into play in organizational and sometimes strategic decisions. It is thus important to achieve a system of fits among those variables that facilitates strategic implementation.

With a polycentric staffing approach, local managers' host-country nationals (HCNs) are hired to fill key positions in their own country. This approach is more likely to be effective when implementing a multinational strategy. If a company wants to "act local," staffing with HCNs has obvious advantages. These managers are naturally familiar with the local culture, language, and ways of doing business, and they already have many contacts in place. In addition, HCNs are more likely to be accepted by people both inside and outside the subsidiary, and they provide role models for other upwardly mobile personnel. With regard to cost, it is usually less expensive for a company to hire a local manager than to transfer one from headquarters, frequently with a family and often at a higher rate of pay. Transferring from headquarters is a particularly expensive policy when it turns out that the manager and her or his family does not adjust and have to be prematurely transferred home. Rather than building their own facilities, some companies acquire foreign firms as a means of obtaining qualified local personnel. Local managers also tend to be instrumental in staving off or more effectively dealing with problems in sensitive political situations. Some countries, in fact, have legal requirements that a specific proportion of the firm's top managers must be citizens of that country. One disadvantage of a polycentric staffing policy is the difficulty of coordinating activities and goals between the subsidiary and the parent company, including the potentially conflicting loyalties of the local manager. Poor coordination among subsidiaries of a

multinational firm could constrain strategic options. An additional drawback of this policy is that the headquarters managers of multinational firms will not gain the overseas experience necessary for any higher positions in the firm that require the understanding and coordination of subsidiary operations.

In the global staffing approach, the best managers are recruited from within or outside of the company, regardless of nationality. This practice recruiting third country nationals (TCNs) has been used for some time by many European multinationals. Recently, as more major U.S. companies adopt a global strategic approach, they are also considering foreign executives for their top positions. Generally, it seems that "the more distant geographically and culturally the subsidiary, the more expatriates are used in key positions, especially in less developed countries." Clearly, this situation arises out of concern about uncertainty and the ability to control implementation of the corporation's goals. In the staffing phase, having the right people in the right places at the right times is a key ingredient to success in international operations. An effective managerial cadre can be a distinct competitive advantage for a firm. How the "right" selections are made is the focus of the next section.

2. Global Selection

The selection of personnel for overseas assignments is a complex process. The criteria for selection are based on the same success factors as in the domestic setting, but additional criteria must be considered, related to the specific circumstances of each international position. Unfortunately, many personnel directors have a long-standing, ingrained practice of selecting potential expatriates simply on the basis of their domestic track records and their technical expertise. The need to ascertain whether potential expatriates have the necessary cross-cultural awareness and interpersonal skills for the position is too often overlooked. It is also important to assess whether the candidate's personal and family situation is such that everyone is likely to adapt to the local culture. There are five categories of success for expatriate managers: job factors, relational dimensions such as cultural empathy and flexibility, motivational state, family situation, and language skills. The relative importance of each factor is highly situational and difficult to establish. A more flexible approach to maximizing managerial talent, regardless of the source, would certainly consider more closely whether the position could be suitably filled by a host-country national, as put forth by Tung, based on her research. This contingency model of selection and training depends on the variables of the particular assignment, such as length of stay, similarity to the candidate's own culture, and level of interaction with local managers in that job. Tung concludes that the more rigorous the selection and training process, the lower the failure rate.

The selection process is set up as a decision tree in which the progression to the next stage of selection or the type of orientation training depends on the assessment of critical factors regarding the job or the candidate at each decision point. The simplest selection process involves choosing a local national because minimal training is necessary regarding the culture or ways of doing business locally. However, to be successful, local managers often require additional training in the MNC companywide processes, technology, and corporate culture. If the position cannot be filled by a local national, yet the job requires a high level of interaction with the local community, very careful screening of candidates from other countries and a vigorous training program are necessary. For MNCs based in Europe and Asia, human resource policies at all levels of the organization are greatly influenced by the home-country culture and policies. For Japanese subsidiaries in Singapore, Malaysia, and India, for example, promotion from within and expectations of long-term loyalty to and by the firm are culture-based practices transferable to subsidiaries. At Matsushita, however, selection criteria for staffing seem to be similar to those of Western companies. Its candidates are selected on the basis of a set of characteristics the firm calls SMILE; specialty (required skill, knowledge); management ability (particularly motivational ability); international flexibility (adaptability); language facility; and endeavor (perseverance in the face of difficulty).

3. Problems with Expatriation

Deciding on a staffing policy and selecting suitable managers are logical first steps but do not alone ensure success. When staffing overseas assignments with expatriates, for example, many other reasons, besides poor selection, contribute to expatriate failure among U.S. multinationals. A large percentage of these failures can be attributed to poor preparation and planning for the entry and reentry transitions of the manager and his or her family. One important variable, for example, often given insufficient attention in the selection, preparation, and support phases, is the suitability and adjustment of the spouse. The inability of the spouse to adjust to the new environment has been found to be a major in fact, the most frequently cited reason for expatriate failure in United States and European companies. Yet only about half of those companies studied had included the spouse in the interviewing process. In addition, although research shows that human relational skills are critical for overseas work most of the U.S. firms surveyed failed to include this factor in their assessment of candidates. The following is a synthesis of the factors frequently mentioned by researchers and firms as the major causes of expatriate failure selection based on headquarters criteria rather than assignment needs; inadequate preparation, training, and orientation prior to assignment; Alienation or lack of support from headquarters; Inability to adapt to local culture and working environment; Problems with spouse and children poor adaptation, family unhappiness; Insufficient compensation and financial support; Poor programs for career support and repatriation. After careful selection based on the specific assignment and the long-term plans of both the organization and the candidates, plans must be made for the preparation, training, and development of expatriate managers.

4. Training & Development

It is clear that preparation and training for cross-cultural interactions are critical. In earlier discussions of the need for cultural sensitivity by expatriate managers, reports indicate that up to 40 percent of expatriate managers end their foreign assignments early because of poor performance or an inability to adjust to the local environment. Moreover, about half of those who do remain function at a low level of effectiveness. The indirect costs may be far greater, depending on the expatriate's position, Relations with the host-country government and customers may be damaged,

resulting in a loss of market share and a poor reception for future PCNs. Both cross-cultural adjustment problems and practical differences in everyday living present challenges for expatriates and their families. Examples are evident from a survey of expatriates when they ranked the countries that presented the most challenging assignments to them, along with some pet peeves from their experiences. Even though cross-cultural training has proved to be effective, less than a third of expatriates are given such training. In a study by Harvey of 332 U.S. expatriates (dual-career couples), the respondents stated that their MNCs had not provided them with sufficient training or social support during the international assignment. Much of the rationale for this lack of training is an assumption that managerial skills and processes are universal. In a simplistic way, a manager's domestic track record is used as the major selection criterion for an overseas assignment.

In most countries, however, the success of the expatriate is not left so much to chance. Foreign companies provide considerably more training and preparation for expatriates than U.S. companies. Therefore, it is not hard to understand why Japanese expatriates experience significantly fewer incidences of failure than their U.S. counterparts, although this may be partially because fewer families accompany Japanese assignees. Japanese multinationals typically have recall rates of below 5 percent, signifying that they send abroad managers who are far better prepared and more adept at working and flourishing in a foreign environment. While this success is largely attributable to training programs, it is also a result of intelligent planning by the human resource management staff in most Japanese organizations, as reported by Tung. This planning begins with a careful selection process for overseas assignments, based on the long-term knowledge of executives and their families. An effective selection process, of course, will eliminate many potential "failures" from the start. Another factor is the longer duration of overseas assignments, averaging almost five years, which allows the Japanese expatriate more time to adjust initially and then to function at full capacity. In addition, Japanese expatriates receive considerable support from headquarters and sometimes even from local divisions set up for that purpose. At NEC Corporation, for example, part of the Japanese giant's globalization strategy is its permanent boot camp, with its elaborate training exercises to prepare NEC managers and their families for overseas battle. The demands on expatriate managers have always been as much a result of the multiple relationships that they have to maintain as they are of the differences in the host-country environment. Those relations include family relations, internal relations with people in the corporation, both locally and globally, especially with headquarters, external relations (suppliers, distributors, allies, customers, local community, etc.), and relations with the host government. It is important to pinpoint any potential problems that an expatriate may experience with those relationships so that these problems may be addressed during pre-departure training. Problem recognition is the first stage in a comprehensive plan for developing expatriates. The three areas critical to preparation are cultural training, language instruction, and familiarity with everyday matters.

4.1. Cross-cultural Training

Training in language and practical affairs is quite straightforward, but cross-cultural training is not; it is complex and deals with deep-rooted behaviors. The actual process of cross-cultural training should result in the expatriate learning both content and skills that will improve interactions with host-country individuals by reducing misunderstandings and inappropriate behaviors. The trainers should apply social learning technique to this process by using the behavioral science techniques of incentives and rehearsal until the trainee internalizes the desired behaviors and reproduces them. The result is a state of adjustment, representing the ability to effectively interact with host nationals. The goal of this training is to ease the adjustment to the new environment by reducing culture shock a state of disorientation and anxiety about not knowing how to behave in an unfamiliar culture. The cause of culture shock is the trauma people experience in new and different cultures, where they lose the familiar signs and cues that they had used to interact in daily life and where they must learn to cope with a vast array of new cultural cues and expectations. The symptoms of culture shock range from mild irritation to deep-seated psychological panic or crisis. The inability to work effectively, stress within the family, and hostility toward host nationals are the common dysfunctional results of culture shock often leading to the manager giving up and going home. It is helpful to recognize the stages of culture shock to understand what is happening. Culture shock usually progresses through four stages honeymoon, irritation and hostility, gradual adjustment, biculturalism. Similar to culture shock, though usually less extreme, is the experience of subculture shock. This occurs when a manager is transferred to another part of the country where there are cultural differences essentially from what she or he perceives to be a "majority" culture to a "minority" one. The shock comes from feeling like an "immigrant" in one's own country and being unprepared for such differences. For instance, someone going from New York to Texas will experience considerable differences in attitudes and lifestyle between those two states. These differences exist even within Texas, with cultures that range from roaming ranches and high technology to Bible-belt attitudes and laws and to areas with a mostly Mexican heritage.

4.2. Training Techniques

Many training techniques are available to assist overseas assignees in the adjustment process. These techniques are classified by Tung as, area studies, that is, documentary programs about the country's geography, economics, sociopolitical history, and so forth; culture assimilators, which expose trainees to the kinds of situations they are likely to encounter that are critical to successful interactions; language training; sensitivity training; and field experiences exposure to people from other cultures within the trainee's own country. Tung recommends using these training methods in a complementary fashion, giving the trainee increasing levels of personal involvement as she or he progresses through each method. Documentary and interpersonal approaches have been found to be comparable, with the most effective intercultural training occurring when trainees become aware of the differences between their own cultures and the ones they are planning to enter. Similarly categorizing training methods, Ronen suggests specific techniques, such as workshops and sensitivity training, including a field experience called the host-family surrogate, where the MNC pays for and places an expatriate family with a host family as part of an immersion and familiarization program. Most training

programs take place in the expatriate's own country prior to leaving. Although this is certainly a convenience, the impact of host-country (or in-country) programs can be far greater than those conducted at home because crucial skills, such as overcoming cultural differences in intercultural relationships, can actually be experienced during in-country training rather than simply discussed. Some MNCs are beginning to recognize that there is no substitute for on-the-job training (OJT) in the early stages of the careers of those managers they hope to develop into senior-level global managers.

5. Integrating Training with Global Orientation

In continuing our discussion of "strategic fit," it is important to remember that training programs, like staffing approaches, be designed with the company's strategy in mind. Although it is probably impractical to breakdown those programs into a lot of variations, it is feasible to at least consider the relative level or stage of globalization that the firm has reached because obvious major differences would be appropriate, for example, from the initial export stage to the full global stage. As a further area for managerial preparation for global orientation-in addition to training plans for expatriates and for HCNs separately-there is a particular need to anticipate potential problems with the interaction of expatriates and local staff. The continuous training and development of HCNs and TCNs for management positions is also important to the long-term success of multinational corporations. As part of a long-term staffing policy for a subsidiary, the ongoing development of HCNs will facilitate the transition to an indigenization policy. Furthermore, multinational companies like to have well-trained managers with broad international experience available to take charge in many intercultural settings, whether at home or abroad. Whether in home corporations or in MNC subsidiaries or joint ventures in any country, managerial training to facilitate e-business adoption is competitively taking on increasing importance in order to take advantage of new strategic opportunities. While large companies are well ahead on the curve for information and communication technologies (ICT), there is considerable need for small and medium-sized enterprises (SMEs) to adopt such knowledge-creating capabilities. Managerial training in ICT is particularly critical for firms in new economy and emerging markets, and, in the aggregate, can provide leverage for rapid economic growth in regions such as Eastern Europe. In another common scenario also requiring management of a mixture of executives and employees, American and European MNCs presently employ Asians as well as Arab locals in their plants and offices in Saudi Arabia, bringing together three cultures: well-educated Asian managers living in a Middle Eastern, highly traditional society who are employed by a firm reflecting Western technology and culture. This kind of situation requires training to help all parties effectively integrate multiple sets of culturally based values, expectations, and work habits.

6. Conclusion

The effectiveness of managers at foreign locations is crucial to the success of the firm's operations, particularly because of the lack of proximity to, and control by, headquarters executives. The ability of expatriates to initiate and maintain cooperative relationships with local people and agencies will determine the long-term success, even viability, of the operation. In a real sense, a company's global cadre represents its most valuable resource. Proactive management of that resource by headquarters will result in having the right people in the right place at the right time, appropriately trained, prepared, and supported. MNCs using these IHRM practices can anticipate the effective management of the foreign operation, the fostering of expatriates' careers, and ultimately, the enhanced success of the corporation.

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