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Cross Cultural and Global Management

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**EVOLUTION OF AN INTERNATIONAL ENTERPRISE, ENVIRONMENTAL
VARIABLES IN GLOBAL BUSINESS**

STRUCTURE

- 1.0 Objectives
- 1.1 Stages of evolution of an international enterprise
- 1.2 Environmental Variables in Global Business
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- 1.3 Summary
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- 1.6 Answers to Self Check Exercise
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1.0 OBJECTIVES

After reading this chapter, the student should be able to:

- Know how the domestic company evolves into a multinational company
- Understand the environmental factors affecting global business

1.1 STAGES OF EVOLUTION OF AN INTERNATIONAL ENTERPRISE

A unational or domestic company goes through several distinct but overlapping stages. In its evolution into an international enterprise, some companies go through these stages rapidly in a few years whereas others may take many years to evolve into full-fledged global firms. Companies do not all systematically proceed from one evolutionary stage to another; some in fact skip on or several of the stages. The following discussion applies mainly to manufacturing firms.

Stage 1: Foreign Inquiry: Stage 1 begins when a company receives an inquiry about one of its products directly from a foreign businessperson or from an independent domestic exporter and importer. The company may ignore the inquiry, in which case there is no further evolutionary development. However, if the company responds positively and has its product abroad, and the company executives probably become favorably disposed toward the export of their products. Other inquiries from foreign buyers are received more enthusiastically, and the company sells its products abroad through a domestic export middleperson. The middleperson could be an export merchant, an export commission house, a broker or a manufacturer's agent.

Stage 2 : Exports Manager: As the company's exports continue to expand and the executives decide that the time is appropriate to take the export management into their own hands rather than rely on unsolicited inquiries from abroad, a decision is made to assume a proactive rather than a reactive position toward exports. Hence, an export manager with a small staff is appointed to actively search for foreign markets for the company's products.

Stage 3: Export Department and Direct Sales: As export sales continue their upward surge, the company has difficulty operating with an export manager only and his or her small staff. A full-fledged export department or division is established at the same level as the domestic sales department. The company then drops the domestic export middleperson and begins to sell directly to importers or buyers located in foreign markets.

Stage 4: Sales Branches and Subsidiaries: Further growth of export sales requires the establishment of sales branches abroad to handle sales and promotional work. A sales branch manager is directly responsible to the home office, and the branch sells directly to middlepersons in the foreign markets. A sales branch gradually evolves into a sales subsidiary, which is incorporated and domiciled in the foreign country, and which enjoys greater autonomy than it had as a sales branch.

Stage 5: Assembly Abroad: Assembly abroad occurs for three major reasons: cheaper shipping costs for unassembled Products, lower tariffs, and cheaper labor. The company may begin assembly operation in one or more of the foreign markets if export of the disassembled product is more profitable than export of the whole product. Often tariffs and transportation costs are lower on unassembled parts and components than on the assembled, finished product. A large number of Japanese TV sets are assembled in India for these reasons.

Stage 6: Production Abroad: After the previous stages have been accomplished, the next step is the establishment of production abroad. It must, therefore, perform many business functions abroad, purchasing, finance, human resource planning and management, manufacturing, marketing, and so on. The company is also obligated to make significant commitments of technical, management, and financial resources to the new foreign entity.

The company learns from its experience with the first foreign manufacturing venture, and this knowledge paves the way for the establishment of other foreign manufacturing plants abroad. At the same time, the company continues to export its products and to license its technology to foreign businesses and, increasingly, to its own foreign affiliates.

Stage 7: Integration of foreign Affiliates: As the parent company managers decide to integrate the various foreign affiliates into one multinational enterprise system, and as the company begins to operate as an integrated network, the affiliates lose considerable autonomy, as top management at the company headquarters who makes strategic decisions. The network is comprised of interpersonal ties that connect managers and subsidiaries across geographical borders. Functioning as a global network facilitates exchange of ideas which promote innovation and performance of subsidiaries. The company's management begins to view the entire world as its theater of operations; it plans, organizes, staffs, and controls its international operations from a global perspective.

Not all companies go through each of the seven stages just described. Some companies stop short of complete integration of their domestic and foreign operations, preferring instead to manage their domestic and foreign operations in a decentralized manner, without an overall global strategy. Others may choose to coordinate the operations of affiliates in a certain region of the world, such as Europe, and keep the affiliates in other regions unattached and semiautonomous. Still other companies may decide to think globally with respect to only a few, but not all, of the enterprise functions.

Many changes in management practices and organizational structure occur as a firm evolves into a multinational company. Some of these changes involve a radical reorientation in the attitudes and values of the managers with respect to both the role of the company in the world economy and the allegiance of the company to the home country.

1.2 ENVIRONMENTAL VARIABLES IN GLOBAL BUSINESS

A manager in an international company performs her or his managerial functions in an environment that is far more complex than that of her or his counterpart in a domestic company. The international environment is the sum total of the environments of every nation in which the company has its foreign affiliates. The environment within each nation consists of five dimensions: economic, political, legal, cultural, and technological.

The international environment: 1.2.1 Economic environment:

- Economic system
- Level of economic development
- Population
- Gross national product
- Per capita income
- Literacy level
- Social infrastructure
- Natural resources
- Climate
- Membership in regional economic blocks (EU,NAFTA)
- Monetary and fiscal policies
- Wage and salary levels
- Nature of competition
- Foreign exchange rates
- Currency convertibility
- Inflation
- Taxation system
- Interest rates

1.2.2 Political environment:

- Form of government
- Political ideology
- Stability of government
- Strength of opposition parties and groups
- Social unrest
- Political strife and insurgency
- Government attitude toward foreign firms
- Foreign policy

1.2.3 Legal environment:

- Legal tradition
- Effectiveness of legal system
- Treaties with foreign nations
- Patent trademark laws
- Laws affecting business firms

1.2.4 Cultural environment:

- Customs, norms, values, beliefs
- Language
- Attitudes
- Motivations
- Social institutions
- Status symbols
- Religious beliefs

1.2.5 Technological environment:

- Inventions
- New-product development
- New-process innovations
- Internet capabilities

1.2.6 Self Check Exercise

- As export sales continue their upward surge, the company establishes a full-fledged export department or division at the same level as the _____ sales department.
- Assembly abroad occurs for three major reasons: cheaper shipping costs for unassembled products, lower tariffs, and cheaper _____.
- After the previous stages have been accomplished, the next step is the establishment of _____ abroad.
- The integration of foreign affiliates involves the company operating as an integrated network, where affiliates have considerable autonomy but strategic decisions are made by top management at the _____ headquarters.
- The international environment is the sum total of the environments of every _____ in which the company has its foreign affiliates.

1.3 SUMMARY

Multinationals are not born overnight. The evolution from a domestic to a truly global organization may involve a number of steps or stages, varying from firm to firm and so does the time frame involved. And at the same time the international environment framework has also to be given due consideration.

1.4 SHORT ANSWER QUESTIONS

Q1 How does a domestic company typically evolve into one that is multinational? How and why does change occur in the relationship between the parent company and foreign affiliates as the company becomes a multinational?

1.5 Answers to Self Check Exercise

- Domestic
- Labor
- Production
- Company
- Nation

1.6 SUGGESTED READINGS

- Peter J Dowling, Denise E Welch, International Human Resource Management, Thompson Learning, 2004
- S.C.Gupta, International HRM, Macmillan India Ltd. 2006.

UNDERSTANDING CULTURE

STRUCTURE

- 2.0 Objectives
- 2.1 Introduction
- 2.2 The Concept of Culture
- 2.3 Style of Management in Different Countries
 - 2.3.1 HRM in Japan
 - 2.3.2 HRM in the United States
 - 2.3.3 HRM in the United Kingdom
 - 2.3.4 HRM in Turkey
 - 2.3.5 HRM in the Middle East
 - 2.3.6 HRM in India
 - 2.3.7 HRM in China
 - 2.3.8 Self Check Exercise
- 2.4 Managerial Implications of Culture
- 2.5 Summary
- 2.6 Short Answer Questions
- 2.7 Glossary
- 2.8 Answers to Self Check Exercise
- 2.9 Suggested Readings

2.0 OBJECTIVES

After reading this chapter, the student should be able to:

- Understand the concept of culture.
- Discuss the effects of culture on the management styles in different countries.

2.1 INTRODUCTION

The corporate culture develops subconsciously and often owners or senior managers are not even aware about them. The employees adjust to a certain way of working and new staff is taught to adjust to this culture. Every company has a corporate culture and to understand it, is quite important.

It is because corporate culture can help to achieve the business objectives, e.g. when part of the culture is team work, helping each other, and taking initiative and so on. But it might also be a hindrance. Staff might not be supportive of each other, overly ambitious colleagues are looked down at and this can break their motivation. The reason might be the corporate culture which goes against everything.

Cultural sets of beliefs and differences cannot be easily changed or overcome. But it is important for any business owner or manager to open their eyes and be aware of them and how they impact their business. This will help to adjust to them and improve efficiency, profitability and success of the business.

2.2 THE CONCEPT OF CULTURE

Culture is easier to recognize than to define. According to Edward Taylor, "Culture is that

complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities acquired by man as a member of society”.

Geert Hofstede defines culture as “the collective programming of the mind which distinguishes the member of one human group from another”.

The various elements of culture include values, attitudes, folkways and customs. The factors that affect the evolving pattern of cultures are prevailing political and economic systems, the social structure of the society, dominant religion, language, aesthetics and education.

2.3 STYLE OF MANAGEMENT IN DIFFERENT COUNTRIES

2.3.1 HRM in Japan:

Japan has a homogeneous culture and foreign immigrants make up a very small percentage of its population. As a result, the cultural characteristics attributed to the Japanese are shared by almost all the people, barring some individual and regional variations. The society as a whole is characterized by collectivism; a strong sense of group and community. The Japanese loyalty is to the group to which they belong and for which they are prepared to sacrifice their personal interests. The Japanese are very hard working and also have a strong sense of duty and indebtedness.

Though western-style horizontal social class system does not exist in Japan, status is clearly signaled in other ways, such as the extent to which one bows when meeting others, sitting arrangements at tables, order of serving meals, the time given to people to speak in groups, and the terms one uses to address people of different ages and professions. The Japanese language itself is such that the relative status of any two speakers is signaled immediately.

Trade unions in Japan are company-based. For example, Toyota has its own union as does Nissan and Hitachi. Another characteristic of Japanese enterprises is the ringi method of decision making. This involves a great deal of consultation and problem solving, leading to the preparation of a written proposal which is circulated first to those who would be affected by the implementation of the proposal and then to senior management.

Quality circles are another vehicle for employee participation. A quality circle is a small group activity in which ordinary blue and white collar workers, usually employed on broadly similar work and led by their supervisor, volunteer to participate. Such volunteers are trained in problem identification and problem-solving techniques.

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The Japanese see their company as a family which is primarily a social entity though operating in an economic environment. Team work and a consensus style of management is a distinctive feature of Japanese companies. Employee involvement at the task level; job rotation, leading to job flexibility are other common features of Japanese companies. Japanese do not recruit in order to fill specialized job-slots. New recruits, selected on their broad qualifications, undergo an induction period in which they are socialized into their new corporate community before their initial workplace training.

2.3.2 HRM in the United States:

Prominent among American national cultural characteristics is individualism. Americans are, independent, ambitious and individualistic and place a high value on freedom and believe that individuals can shape and control their own destinies. American individualism focuses on economic achievement. The primary commitment and loyalty of the individuals do not therefore

lie with the company or any other larger groupings of which they may be a member. The Americans however, do display a high level of collectivism and group orientation in the face of a common threat.

Individualism informs and inspires American management and the ethic of personal achievement which runs through it: hard work and long hours when necessary, individual employees' readiness to take decisions, personal initiative, strong presentation of personal image, promotion and high incomes as rewards for success. The individualistic nature of the society encourages managers to promote on the basis of merits as opposed to hierarchy, status or gender. The emphasis on individual freedom and success includes freedom to pursue one's career progression by moving from one company to another in pursuit of success.

Large American companies typically hire people to fill particular jobs. Their senior managers know that Americans are mobile people, who have limited commitment to any particular employer or part of the country. As a result, jobs are clearly defined and so are the skills needed to fill them.

In organizations, Americans prefer participative management; superiors are usually approachable and subordinates are more willing to question authority. Americans live more easily with uncertainty compared with many other nations, a characteristic which facilitates participation in decision making and risk taking.

A prominent feature of the US business culture is its anti-trade unionism. Large American companies prefer to deal with their employees through human resource management policies and practices rather than recognition of unions. Americans dislike rules and regulations but do use them in their organizations and in the society at large.

American companies have some of the highest employee working hours, productivity rates and employee training expenditure in the world. They take training of all their employees at all levels very seriously. Most US multinational companies tend to have ethnocentric policies in their HRM, in relation to their foreign subsidiaries. They normally allow a limited amount of deviation from their centrally-determined strategy, especially with respect to host-country legal requirements where compliance is not negotiable. They also allow local managers some discretion to make modifications in the implementation of their strategy.

2.3.3 HRM in the United Kingdom:

The British are highly individualistic and greatly value their individual liberty; at the same time they care for their community and engage in collective action. This collectivism is manifested in UK's strong trade union traditions. Union membership is craft based and cuts across firms and organizations. As a result, there are likely to be several unions represented in the same factory or office, bargaining not just with employers but against each other. Individualism appears to influence the relationship between employees and their bosses and their work organizations. This relationship is strictly contractual. The managers and workers have an impersonal and task-oriented relationship with one another. British employees are career-oriented and join another company if better prospects beckon. However, unlike in America, managers tend to spend much less on employee training. As a result, the British workforce has far lower productivity rates than the Americans, and indeed workers in many other leading economies.

In Hofstede's study, Britain scored low on power distance relative to many other nations, but people do not really care as much about equality as they do about liberty. In organizations, the

class system is mirrored in the different treatments accorded to manual workers and low-level office workers on one hand and to managers and other high-ranking office staff on the other. Managers and other white collar employees have normally greater advantages over manual workers in many respects, such as power, status, pay, physical working conditions, eating places, rules for lunch and tea breaks, and holidays.

2.3.4 HRM in Turkey:

Turkish culture is also characterized by a relatively conservative outlook and traditionalism, especially in the rural areas and among the lower socio-economic groups of society. In Hofstede's study, Turkey was found to be a rather collectivist society with an almost equal level of masculine and feminine values, and with a rather large power distance and strong uncertainty avoidance.

In Turkish companies, hierarchy is the way to exercise leadership. Respect for authority is important. High power distance between superiors and subordinates does not allow for equality, either in wealth or in decision making. Autocratic leadership prevails with hardly any dialogue between management, and employees. Turkish managers also appear to reflect national cultural traits. Turkish managers:

- Are not very social but they are good at relationships with people
- Prefer to be managed than to manage
- Have a high level of tolerance
- Have strong 'empathic' ability
- Like the conceptual rather than the concrete
- Use their innovative ability as much as possible but are also bound to traditional methods
- Are details conscious
- Do not like to change their jobs often
- Are not risk takers

2.3.5 HRM in the Middle East:

The Arabs are highly collectivist with a strong sense of loyalty to their in-group, whose membership like the Indian's, goes well beyond the immediate family, to embrace extended family, relatives and friends. The Arab nation's group orientation can be traced to their Bedouin tradition, which in turn reinforces customs such as consultations, obedience to seniors, loyalty, face to face interaction, and networks of personal connections. The organizations have hierarchical and centralized structures, with paternalistic authoritarian management style. The subordinates, although expect to be consulted with, do not expect to participate in the actual decision making as equal partners, which is the prerogative of their senior managers. Senior positions are usually held by older people, promotion and pay are more likely to be related to the employees' degree of loyalty to their managers than to their job performance. The younger generation managers are more in favour of western-style professionalism than their older colleagues.

One of the main features of many Arab companies is the extensive use of expatriates both at highly technical and professional levels, because of shortage of home-grown experts, and at the shop floor manual work level, mainly because the locals are not prepared to do low-paid, low-esteemed menial jobs. At high level positions, the expatriates are very well paid, and in many cases, their pay is exempt from income tax, and their families enjoy living in comfortable and well appointed accommodation, but their contracts are on a short-term basis with no guaranteed job security or contract renewal. At the shop floor level, there exists harsh discrimination against expatriates, in terms of pay, working conditions, and other employee rights compared to their

local counterparts. There is also widespread discrimination against women, both domestic and expatriates, especially in terms of job opportunity, recruitment, promotion prospects and pay.

With a few exceptions, no serious independent labour union movement has developed in the Arab world. In those countries where workers are permitted to organize, their unions are either created by the ruling single-party system or are closely controlled by the government.

2.3.6 HRM in India:

Of the characteristics which are most held in common by Indian people, collectivism is one which can be readily identified to work organization. Indians are said to be community conscious. However, the community to which an Indian feels affiliated and interested in, is his extended family, close circle of relatives and friends, caste and religious group rather than society as a whole.

Larger power distance, manifested in the high level of respect for and obedience to older people and those in position of power, is another shared cultural characteristic in India. Organizations too, tend to be hierarchical with a central decision making process and little or no authority delegated to lower ranks. Management style tends to be authoritarian or paternalistic with a clear distinction between white collar and blue collar employees in terms of power, pay, working conditions and other privileges. However, the authority of people in a position of power, be it in society at large or within companies, does not always go unchallenged.

In the workplace, trade unions represent a countervailing power to management authority. There are no craft unions in India. Trade unions are either plant based or national organizations which are run locally in each state and focus their activities on the interest of their immediate members at the plant or local industry level. Generally, industrial relations legislation is proworkers and aims at protecting their employment and general well-being.

2.3.7 HRM in China:

One of the fundamental tenets of Chinese culture is the yin-yang philosophy which accepts the simultaneous existence of opposite values and beliefs within a person, and by implications within a culture. The Chinese are collectivist and group-oriented, they also display highly individualistic tendencies at times. In addition, unlike the Japanese, their work organizations do not seem to be a part of their in-groups.

Chinese personal networking (guanxi) has been traditionally important. A combination of guanxi and personal loyalty has an implication for employee management relationships. For instance, it is very common for Chinese managers who leave their company to join another one to invite their subordinates to follow them to the new company. Similarly, it is common for employees to stay in a company mainly because they have strong personal ties with their superiors. Local governments also play an important role in the transfer of people across companies. For instance, the local labour bureau can stop a transfer from one organization to another if the bureau believes that the requirements of the original employment contract were not met. Also, if foreign companies located in china wish to recruit Chinese national managers, they need to obtain permission from the local government.

Chinese managers are usually not proactive or bold when making decisions, and they often do not offer independent opinions on particular decisions. Managers are reluctant to share information and to take risky decisions; they also worry much more about political relationships in organization than they do about the organizational goals and how to achieve them.

2.3.8 Self Check Exercise (True/False)

- Corporate culture develops consciously, and owners or senior managers are always aware of it.
- Cultural differences such as values, attitudes, and customs can be easily changed or overcome.
- In Japanese companies, quality circles involve top-level management making decisions without consulting employees.
- The United States has a strong tradition of trade unionism, and large companies prefer dealing with employees through unions.
- British employees are generally not career-oriented and tend to stay with one company for a long time.

2.4 MANAGERIAL IMPLICATIONS OF CULTURE

There are many ways of examining cultural differences and their impact on international management. Culture can affect technology transfer, managerial attitudes, managerial ideology and business- government relations. The most important is how culture affects people's thinking and behavior. Following are the ways in which culture directly affects management.

- (a) **Centralized vs decentralized decision making:** In some societies, top managers make all important organizational decisions. In others, these are diffused throughout the organizations and middle and lower level actively participate in, and make, key decisions.
- (b) **Safety vs risk:** In some societies, organizational decision makers are risk averse and have great difficulty with conditions of uncertainty. In other societies, risk taking is encouraged, and decision making under uncertainty is common.
- (c) **Individual vs group rewards:** In some countries, personnel who do outstanding work are given individual rewards in the form of bonuses and commissions. In other countries, cultural norms require group rewards, and individual rewards are frowned upon.
- (d) **Informal vs formal procedures:** In some societies, much is achieved through informal means. In other societies, formal procedures are set forth and followed rigidly.
- (e) **High vs low organizational loyalty:** In some societies, people identify very strongly with their organization or employer. In other societies, people identify with their occupational group such as that of engineers or doctors.
- (f) **Cooperation vs competition:** Some societies encourage cooperation between people, while others encourage competition.
- (g) **Short-term vs long-term horizons:** Some nations focus most heavily on short-term horizons such as short-range goals of profit and efficiency. Others are more interested in long term goals such as market share and technological development.
- (h) **Stability vs innovation:** Some cultures encourage stability and resistance to change, while others put high value on innovation and change.

2.5 SUMMARY

This chapter highlighted discussed the implications of national culture for employee management and leadership styles in various countries. The extent to which the HRM policies and practices in these countries reflect their deeply-held cultural values and attitudes has been discussed. The various managerial implications of culture have also been described.

2.6 SHORT ANSWER QUESTIONS

1. Discuss the management styles in relation to culture of different countries.
2. What are the implications of culture on management of organizations?

2.7 GLOSSARY

Culture: that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities acquired by man as a member of society

2.8 Answers to Self Check Exercise

- False
- False
- False
- False
- False

2.9 SUGGESTED READINGS

- Rao P.L., International Human Resource Management, Excel Books, New Delhi, 1st Edition, 2008.
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- Tayeb M.H., International Human Resource Management A Multinational Company Perspective, Oxford University Press, 1st Edition, 2005.

DIFFERENCE BETWEEN INTERNATIONAL AND DOMESTIC HUMAN RESOURCE MANAGEMENT. ETHICAL DILEMMAS IN INTERNATIONAL HRM.

STRUCTURE

3. Objectives
- 3.1 Introduction
- 3.2 concept of IHRM
- 3.3 Difference between International and Domestic HRM
- 3.4 Self Check Exercise
- 3.5 Ethical dilemmas in International HRM
- 3.6 Short Answer questions
- 3.7 Answers to Self Check Exercise
- 3.8 Reference Readings

3.0 OBJECTIVES

After reading this chapter, the student should be able to:

- Define International HRM
- To determine the difference between international and domestic HRM
- Understand the Ethical dilemmas in International HRM.

3.1 INTRODUCTION

The last 25 years have witnessed a major growth of interest in strategy and human resource management. Both organizations and academics have increasingly explored the ways in which HRM is strategic to business success and while there have been debates over the meaning of HRM since the term emerged in the mid- 1980s. It has become the most influential term referring to the activities of management in the employment relationship International HRM, on the other hand, is a field of much more recent origin and was described by a leading scholar in international management as a field in the infancy stage of development. Until relatively recently the majority of research on multinational companies focused on activities such as international production, international marketing and international strategy. Indeed IHRM was one of the least studied areas in international business and the bulk of research in this field had been conducted by US researchers from an American rather than an international perspective.

3.2 CONCEPT OF IHRM

International human resource management (IHRM) is the process of procuring, allocating, and effectively utilizing human resources in a multinational corporation. If the MNC is simply exporting its products, with only a few small offices in foreign locations, then the task of the international HR manager is relatively simple. However, in global firms human resource managers must achieve two somewhat conflicting strategic objectives. First, they must integrate human resource policies and practices across a number of subsidiaries in different countries so that overall corporate objectives can be achieved. At the same time, the approach to HRM must be

sufficiently flexible to allow for significant differences in the type of HR policies and practices that are most effective in different business and cultural settings. There is no consensus about what the term IHRM covers although most studies in the area have traditionally focused on the area of expatriation. IHRM has been defined as 'the HRM issues and problems arising from the internationalization of business, and the HRM strategies, policies and practices which firms pursue in response to the internationalization of business'. Welch (1994) concluded that international HRM was essentially concerned with the four core activities of recruitment and selection, training and development, compensation and repatriation of expatriates. Similarly, lies (1995) identifies four key areas in IHRM as recruitment and selection, training and development, managing multicultural teams and international diversity and performance management. Hendry (1994), on the other hand, argues that there are three main issues in IHRM: first, the management and development of expatriates; second, the internationalization of management throughout the organization; and finally, the need to internationalize the whole organization by creating a new corporate culture reflecting the need for greater international experience across the whole organization due to the increasing frequency of cross-cultural interactions of doing business at home as well as abroad. The advantage of such definitions is that they cover a far wider spectrum than the management of expatriates and involve the worldwide management of people. They also highlight IHRM as a related but separate field from comparative employment relations which is concerned with understanding in what ways and why HRM practices differ across countries. More recent definitions emphasize a more strategic approach and consider the role and organization of IHRM functions, the relationship between headquarters and the local units as well as the actual policies and practices adopted. For example, Taylor et al. (1996) define IHRM as: 'The set of distinct activities, functions and processes that are directed at attracting, developing and maintaining an MNC's human resources. It is thus the aggregate of the various HRM systems used to manage people in the MNC, both at home and overseas'. This suggests that international HRM is concerned with identifying and understanding how MNCs manage their geographically dispersed workforces in order to leverage their HR resources for both local and global competitive advantage (Schuler et al., 2002). Globalization has brought new challenges and increased complexity such as the challenge of managing newer forms of network organization. Specifically compared with domestic HRM, IHRM (I) encompasses more functions, (2) has more heterogeneous functions, (3) involves constantly changing perspectives, (4) requires more involvement in employees' personal lives, (5) is influenced by more external sources, and (6) involves a greater level of risk than typical domestic HRM. When compared with domestic human resource management, IHRM requires a much broader perspective on even the most common HR activities. This is particularly so for HR managers operating from a MNC's headquarters (HQ). The number and variety of IHRM activities are daunting. International HR managers must deal with issues as varied as international taxation; international relocation and orientation; various other administrative services for expatriates; selecting, training and appraising local and international employees; and managing relations with host governments in a number of countries around the world. Even when dealing with one particular HR function area such as compensation, the international HR manager is faced with a great variety of national and international pay issues. For example, while dealing with pay issues, the HQ-based HR manager must coordinate pay systems in different countries with different currencies that may change in relative value to one another over time. An American expatriate in Tokyo who receives a salary of \$100,000 may suddenly find the buying power of that salary dramatically diminished if the Japanese yen strengthens in value relative to the US dollar. A US dollar purchased 248 yen in

1985, but less than 110 yen in 2000. In the case of fringe benefits provided to host company employees, some interesting complications might arise. For instance, it is common in the United States to provide health insurance benefits to employees and the employee's family, which usually means spouse and children. In some countries however, the term "family" may include a more extended group of relatives—multiple spouses, aunts, uncles, grandparents, nephews, and nieces. How does the firm's benefit plan deal with these different definitions of family? A final aspect of the broader scope of IHRM is that the HQ-based manager deals with employee groups that have different cultural backgrounds. The HQ manager must coordinate policies and procedures to manage expatriates from the firm's home country (parent country nationals, PCNs), host-country nationals (HCNs), as well as third country nationals (TCNs, e.g. a French manager working for an American MNC in the firm's Nigerian subsidiary) in subsidiaries around the world. Although such issues are important for the HQ-based manager, they are also relevant to the HR manager located in a subsidiary. This manager must develop HR systems that are not only acceptable to the host country but also compatible with company-wide systems being developed by his or her HQ-based counterpart. These policies and practices must effectively balance the needs and desires of local employees, PCNs and TCNs. It is at the subsidiary level that the increased involvement of IHRM in the personal lives of employees becomes particularly apparent. It is not unusual for subsidiary HR managers to be involved in arranging housing, healthcare, transportation, education, and recreation activities for expatriate and local staff. IHRM activities are also influenced by a greater number of external forces than are domestic HR activities. The HQ-based manager may have to set equal employment opportunity (EEO) policies that meet the legal requirements of both the home country and a number of host countries. Because of the visibility that foreign firms tend to have in host countries (especially in developing countries), subsidiary HR managers may have to deal with ministers, other political figures, and a great variety of social and economic interest groups than would normally be encountered in a purely domestic HRM.

3.3 DIFFERENCE BETWEEN INTERNATIONAL AND DOMESTIC HRM

Not all writers have been fully convinced about the distinction between IHRM and domestic HRM, and some emphasize the basic continuities and similarities between operating in the domestic and international business environments. However, given the increasing pace of internationalization and the changing forms of globalization, there is growing support for the argument of Evans et al. (2002), that 'in the global era the most relevant insights into management processes will come from studying human resource management in an international context'. We can see that in broad terms IHRM involves the same activities as domestic HRM (for example HR planning and staffing, recruitment and selection, appraisal and development, rewards, and so on) (Morgan, 1986). However, as pointed out by Dowling et al. (1999), domestic HRM is involved with employees within only one national boundary. IHRM, on the other hand, deals with three national or country categories: the parent country where the firm is usually headquartered; the host country where a subsidiary may be located; and other countries which may be the source of labour, finance or research and development. In addition, there are three types of employees of an international firm: parent-country nationals (PCNs); host-country nationals (HCNs); and third-country nationals (TCNs). For example, Shell may employ some Australian managers to work in Japan as third-country nationals. There are two major factors therefore which differentiate domestic HRM from IHRM. First, the complexities of operating in different countries (and therefore in different cultures), and secondly employing different national categories of workers. It is argued that these are the key variables that differentiate domestic and IHRM rather than any major differences between

HRM areas or functions performed (Dowling et al., 1999). This suggests that it is the knowledge of conditions in a variety of countries and how to manage them within and across borders which is the essence of IHRM. Research suggests that many firms continue to underestimate the complexities of managing human resources across borders which often results in poor performance in international operations (Schuler et al., 2004). It has been argued by Dowling et al. (1999) that the complexity of IHRM can be attributed to six factors that differentiate international from domestic HRM. These factors are:

- 1 A wider range of HR activities
- 2 The need for a broader perspective"
- 3 More involvement in employees' personal lives
- 4 Responsiveness to changes in staffing requirements as international strategy changes
- 5 Higher risk exposures
- 6 More external influences.

Before offering a definition of international HRM, we should first define the general field of HRM. Typically, HRM refers to those activities undertaken by an organization to effectively utilize its human resources. These activities would include at least the following:

- Human resource planning
- Staffing
- Performance management
- Training and development
- Compensation and Benefits
- Labor relations

We can now consider the question of which activities change when HRM goes international. A paper by Morgan (1986) on the development of international HRM is helpful in considering this question. He presents a model of international HRM.

1. The three broad human resource activities of procurement, allocation, and utilization.
2. The three national or country categories involved in international HRM activities: (1) the host-country where a subsidiary may be located, (2) the home-country where the firm is headquartered, and (3) "other" countries that may be the source of labor or finance.
3. The three types of employees of an international firm: (1) host-country nationals (HCNs), (2) parent-country nationals (PCNs), and (3) third-country nationals (TCNs).³ Thus, for example, IBM employs Australian citizens (HCNs) in its Australian operations, often sends U.S. citizens (PCNs) to Asia-Pacific countries on assignment, and may send some of its Singaporean employees on an assignment to its Japanese operations (as TCNs). Morgan defines international HRM as the interplay among these three dimensions—human resource activities, types of employees, and countries of operation. We can see that in broad terms international HRM involves the same activities as domestic HRM: (eg. procurement refers to HR planning and staffing). The complexities of operating in different countries and employing different national categories of workers is a key variable that differentiates domestic and international HRM, rather than any major differences between the HRM activities performed. Many firms underestimate the complexities involved in international operations, and there is some evidence to suggest that business failures in the

international arena may often be linked to poor management of human resources (Desatnick & Bennett, 1978). Increasingly, domestic HRM is taking on some of the flavor of international HRM as it deals more and more with a multicultural workforce. Thus, some of the current focus of domestic HRM on issues of managing workforce diversity may prove to be beneficial to the practice of international HRM. However, it must be remembered that management of diversity within a single national context may not necessarily transfer to a multinational context without some modification. This leads to the second issue examined in this paper, the variables that moderate differences between domestic and international HRM. The complexity involved in operating in different countries and employing different national categories of employees is a key variable that differentiates domestic and international HRM, rather than any major differences between the HRM activities performed. In addition to complexity, there are four other variables that moderate (that is, either diminish or accentuate) differences between domestic and international HRM.

Reliance of the Multinational on its Home -country Domestic Market:

A pervasive but often ignored factor which influences the behavior of multinationals and resultant HR practices is the extent of reliance of the multinational on its home-country domestic market. When for example, we look through lists of very large firms (such as those that appear in Fortune and other business magazines), it is frequently assumed that a global market perspective would be dominant in the firm's culture and thinking. However, size is not the only key variable when looking at a multinational - the extent of reliance of the multinational on its home-country domestic market is also very important. In fact, for many firms, a small home market is one of the major motives for "going international".

3.4 Self Check Exercise

- IHRM involves the same activities as domestic HRM, such as _____, _____, and _____.
- Dowling et al. (1999) argue that the key variables that differentiate domestic and IHRM are the complexities of operating in different countries and employing different national categories of _____.
- According to Morgan's model of international HRM, the three types of employees of an international firm are host-country nationals (HCNs), parent-country nationals (PCNs), and third-country nationals (TCNs), each representing a different _____.
- One of the factors that moderate differences between domestic and international HRM is the reliance of the multinational on its _____ domestic market.
- IHRM activities are influenced by a greater number of external forces than domestic HR activities, including dealing with ministers, political figures, and various social and economic _____ groups.

3.5 ETHICAL DILEMMAS IN INTERNATIONAL HRM

Managerial Ethical Dilemmas are associated with the 24/7 work connectivity. While not an exhaustive list, key ethical dilemmas include:

- High Pressure Culture of Speed, Efficiency, Cost-Efficient and Competitive Advantage.
- 1) Business market growth, 2) Increased profits, 3) Operational effectiveness, 4) Cost- efficiency, 5) Total customer satisfaction.
- Worker as Machine and Expendable Commodity.
- Work is primary focus and life task. Employee a workload based upon what needs to be done, not what worker can handle.
- Not understanding and caring mentality or leadership approach.
- Company vision, value statements, and culture descriptions at time say employees are valued, but operational practice and attitude indicate different.
- Constant, Anytime Communication and Collaboration.
- Reduced Resources Mentality and Work Climate.
- Low operational cost perspective and practice. Often an organizational mandate and sense of good business practice.
- Too much to do with too limited resources, particularly human and financial.
- Downsizing workforce size, but maintain or increase work output.
- Jobs are now too large and complex for the number of employees assigned.
- Perception of company ownership of employee due to compensation for work. Notion of organizational power and control over employee.

- Work until job is done, but with the “enterprise” nature of the organization, work is never completed. Always work to do.
- Company has a right to intrude into home life because it has much at stake, and the employee has a responsibility for managing the work successfully.
- Managerial power over:
 - 1) Job requirements and work expectations
 - 2) Work schedule
 - 3) Financial security
 - 4) Career opportunities

The ethical issues associated with the 24/7 workplace challenge business leaders to discern what type of organizational culture and managerial attributes foster communication, the acquisition of knowledge and the use of information technology without exploiting a company's human resources, nor impairing their well-being. In light of the virtue ethic presented earlier, managing the 24/7 workplace is about creating work intentions and technological applications rooted in the notions of human dignity and of the good life. It is about setting boundaries on the organization's intrusion into an individual's life, and the manager's power over the employee. There are five areas that are important in establishing a 24/7 technological work environment that fosters employee well being, and thus the potential for a higher level of work satisfaction and quality performance. A business' culture is the social ecology that sets the vision and practice of the company, plus the tone for how the workforce will be viewed and treated. Thus, an organization's culture needs to be critically aware of the socio-technical nature of contemporary business enterprises, and be sensitive to the impact of the particular ICT applications utilized in its daily operations. As more organizations discover and declare that their employees are their greatest asset, it important that they develop policies and practices that are rooted in an authentic sense of human dignity where people are truly valued and not dehumanized by the technical aspects of the workplace. While striving to reach strategic corporate objectives is the overarching goal, working in a manner that fosters employee health and well-being must always be a fundamental concern. To examine multinationals' approach to child labor, we collected corporate codes of ethics (frequently also designated as 'codes of conduct' to distinguish such external, societal, usually international documents from the more internally-oriented ethical ones). From a set of approximately one hundred codes of the largest multinationals and companies that have been pioneers in the field of corporate social responsibility, those codes were selected that explicitly addressed the issue of child labor (Kolk, Van Tulder, & Welters, 1999). The rapid globalization of business has led to an ever-increasing need to internationalize managers within organizations. Many large organizations now see international management experience as a prerequisite for promotion to senior management positions. International assignments have certain key purposes for both the organization and the individual. For the organization these include control and socialization in the prevailing culture and transfer of expertise and for the individual they are a major opportunity for personal development. These assignments do, however, present a considerable risk to the organization. In terms of cost, sending a manager on an international assignment can cost three times normal salary and on costs. Failure, not just in terms of premature return home, but as under-performance, can be, in its short- and long-term effect on business in the host country, very expensive. The extent to which selection practice matches this requirement is, however, questionable. Examination of the international manager-selection literature reveals a mismatch between theory and practice, with extensive lists of theoretical criteria relating to effective international managers, most of which resemble a cross-cultural wish list' in respect of the vast

array of skills and abilities required. Selection processes are equally depicted as both formal and professional. How much the theory of international manager selection reflects actual practice has, however, been questioned (Brewster, 1991). Ethical dilemmas faced by HRPs have to make difficult decisions on a daily basis. These decisions often involve complex ethical dilemmas to achieve outcomes that are fair while complying with legislation and regulations. The degree to which this occurs and the level of complexity of decisions becomes vitally important in understanding this challenging area of management. In the Australian public sector, for example, significant change and, in some jurisdictions, past unethical events, have added to the need for HRPs to be vigilant. Research in the public sector across several States and territories in Australia has revealed HRM practitioners reported that their jobs entail increased frequency and complexity of ethical dilemmas (Shacklock 2002).

3.6 SHORT ANSWER QUESTIONS

1. What is the concept of International Human Resource Management?
2. Describe the difference between international and domestic HRM?
3. What do you mean by Ethical dilemmas in International HRM?

3.7 Answers to Self Check Exercise

- HR planning and staffing, recruitment and selection, and compensation and benefits.
- workers.
- national category.
- home-country
- interest

3.8 SUGGESTED READINGS

- Rao P. I. International Human Resource Management. Excel Books. New Delhi. 1st Edition. 2008

CROSS CULTURAL RESEARCH METHODOLOGIES AND HOFSTEDES HERMS STUDY

STRUCTURE

- 4. Objectives
- 4.1 Introduction
- 4.2 Concept of Culture
- 4.3 Problems associated with cross-cultural research
- 4.4 Hofstede: Culture and Workplace
- 4.5 Hofstede's findings
 - 4.5.1 Power Distance
 - 4.5.2 Uncertainty Avoidance
 - 4.5.3 Individualism
 - 4.5.4 Masculinity
 - 4.5.5 Self Check Exercise
- 5.6 Integrating cultural dimensions
- 5.7 Evaluation of Hofstede's work
 - 5.7.1 Weaknesses
 - 5.7.2 Strengths
- 5.8 Summary
- 5.9 Short Answer Questions
- 5.10 Glossary
- 5.11 Answers to Self Check Exercise
- 5.12 Suggested Readings

4. OBJECTIVES

After reading this chapter, the student should be able to:

- Understand the importance of cross-cultural research.
- Outline the various problems related to cross cultural research.
- Understand Hofstede's landmark study of cross-culture and its four dimensions.

4.1 INTRODUCTION

The interaction of learning within a society produces in every human group a body of socially transmitted behaviour, which appears super-individual, because it is shared, because it is perpetrated beyond the individual lifespan, and because in quantity and quality it so vastly exceeds the capacity of any single person to achieve by his own efforts. The term 'culture' is applied to such systems of acquired and transmitted behaviour. Since cultures change with the varying and cumulative experience of individuals in social groups, it is possible to say of man, as of no other species, with the hereditary capacity to learn, that societies as well as individuals learn. Social learning is synonymous with cultural evolution.

4.2 CONCEPT OF CULTURE

According to Edward Taylor, "Culture is that complex whole which includes knowledge, belief, art, morals, law, custom and other capabilities acquired by man as a member of society".

"A collective programming of the mind which distinguishes one group from another" Geert Hofstede

A key term in these definitions is the word 'programming'. Culture is not something that is easily acquired it is a slow process of growing into a society. It includes:

- learning values (dominant beliefs and attitudes),
- partaking of rituals (collective activities),
- modelling against heroes (role models), and
- understanding symbols (myths, legends, dress, jargon)

These ingredients of culture are acquired from birth. They are influenced by family, school, religion, workplace, friends, television, newspapers and books, and many other sources.

4.3 PROBLEMS ASSOCIATED WITH CROSS-CULTURAL RESEARCH

Cross-cultural research is not an easy task. The researcher must overcome many additional factors not inherent in typical research tasks. Some of these factors are discussed below.

Definition Problems:

Terms used in research instruments, particularly the word 'culture' itself is open to interpretation

There are more than 164 definitions for this one word alone. Then when one considers other terminology used in the questionnaire these too become subject to interpretation. It can become a case of: is the question determining the culture, or the culture determining the question? Problems of translating questions and responses add to these difficulties.

Methodological Simplicity:

One error most researchers have in common, is that they are based on an ethnocentric pattern, and they represent a single timeframe only. These errors can provide bias, misinterpretation and inaccuracies.

A final problem with methodological simplicity is the question of the researcher's background, that is, research tends to be from only one discipline, a better foundation is for multidisciplinary approach (sociology, psychology, political science, economics, anthropology, etc.)

Equivalency:

Equivalency can be divided into four dimensions: functional, conceptual, instrument and measurement equivalence .

Functional equivalence assumes that a functional role in one country is the same in another. For example considering the usage of bicycles in Australia and Vietnam, the two countries would perceive different uses. Australians would see the use as predominately recreational, while many Vietnamese would see it as an essential mode of transport.

Conceptual equivalence regards the cultural utility of behavioural or attitudinal constructs. For instance, company loyalty in Asia may be seen as devotion to one's workplace and by following the rules, while in Australia it may be following instructions and not breaking the rules.

Instrument equivalence and measurement equivalence regard the cross-cultural consistency of the research instrument, whether it is equally represented across the entire sample. This includes participant bias towards scaling. For example some cultures will tend not to provide extreme levels on a scaled question, while other cultures will tend to. Language can also be problematic in this regard and can be overcome through the adoption of back-translation and multilingual panel analysis.

Inadequate attention to these methodological constraints can affect the viability of cross-cultural research. It is therefore critical a researcher adopts as unbiased and unambiguous a research instrument as is practical.

4.4 HOFSTEDE: CULTURE AND WORKPLACE

Geert Hofstede in his book, *Cultures and Organizations: Software of the Mind*, focuses on the 1980a, 1984a, and 1991 versions of his IBM studies involving 1,16,000 employees in 70 countries and 3 regions, namely East Africa, West Africa and Saudi Arabia. By restricting research to one company, he tried to eliminate the impact of changing organizational cultures and analyzed the influence of different national cultures. The findings demonstrate that:

- Work-related values are not universal.
- Underlying values persist when a multinational company tries to impose the same norms on all its foreign interests.
- Local values determine how the headquarters' regulations are interpreted.
- By implication, a multinational that tries to insist on uniformity is in danger of creating morale problems and inefficiencies.

4.5 HOFSTEDE'S FINDINGS

As result of his multi-nation study Hofstede devised four dimensions to characterize cross cultural differences. These are discussed below:

4.5.1 Power Distance:

It is 'the extent to which less powerful members of organizations accept that power is distributed unequally'. It is the distance between individuals at different levels of hierarchy. Countries in which people blindly obey the orders of their superiors have high power distance. Examples would include Mexico, South Korea and India. In such societies, lower level employees tend to follow orders as a matter of procedure. Even at higher levels, strict obedience is the practice. Hofstede found that power distance is maximum in Malaysia and least in Australia and Israel. The proportion of supervisory personnel is less and the workforce will often consist of highly qualified people in high power distance countries. The salary gap between levels will be higher. Power will be reflected through status symbols. Status will be highly valued and have higher motivational appeal. Management is more by control than by participation.

4.5.2 Uncertainty Avoidance:

It is 'the extent to which people feel threatened by ambiguous situations, and have created beliefs and institutions that try to avoid those'. High uncertainty oriented nations tend to have a high need for security and a strong belief in experts and their knowledge. Examples would include Germany, Spain and Japan. Members in such countries are more anxiety-prone and have high job stress. Employees place high premium on job security, career planning, health insurance and retirement benefits.

Countries with low uncertainty culture are more entrepreneurial, innovative and exhibit less emotional resistance to change. Swedes, for instance, suppress emotions and see shyness as a positive trait and talkativeness as a negative one. In business they opt for the rational than the emotional course. Swedes are avid applicers of new technology and are ruthless in scrapping what is old and inefficient. Trade unions, which find a place on the board, will accept job cuts if they find rational arguments in favour. Organizations encourage personnel to use their own initiative

and to assume responsibility for their actions. Sweden, the United States and UK are examples of countries with low uncertainty avoidance.

4.5.3 Individualism:

Individualism is the tendency of the people to look after themselves and their immediate families only. Hofstede measured this cultural difference on a bipolar continuum with individualism on one end and collectivism on the other. Collectivism is the tendency of people to belong to groups and look after each other in exchange for loyalty. Americans high on individualist score, readily go to court against authority and each other to claim their rights. Individual decisions are valued over group decisions and individuals have the right to differ from majority opinion.

Hofstede found that wealthy countries have high individualism score, and poorer countries have higher collectivism score. Countries like the USA, Canada, Denmark and Sweden have high individualism and higher gross product. Japan is an exception. Conversely, countries like Pakistan, or those in Latin America have low individualism (high collectivism) and low gross national product.

4.5.4 Masculinity:

Masculinity is defined by Hofstede as 'a situation in which the dominant values in society are success, money and things'. Countries like Japan with a high masculinity index, place great importance on earnings, recognition, advancement and challenge.

Countries like Norway, with a low masculinity index, tend to place great importance on cooperation, friendly atmosphere and employment security. The workplace has a cordial atmosphere and managers give more credit to employees and freedom to act.

Cultures with a high masculinity index like Germany and Spain favour large scale enterprises. Economic growth is more important than conservation of environment. Cultures with high femininity tend to favour small-scale enterprises and place great importance on conservation of environment.

4.5.5 Self Check Exercise

- The term 'culture' is applied to such systems of acquired and transmitted behavior. Since cultures change with the varying and cumulative experience of individuals in social groups, it is possible to say of man, as of no other species, with the hereditary capacity to learn, that societies as well as individuals learn. Social learning is synonymous with _____ evolution.
- According to Edward Taylor, "Culture is that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities acquired by man as a member of _____."
- One of the problems associated with cross-cultural research is the open interpretation of terms used in research instruments, particularly the word '_____.'

5.6 INTEGRATING CULTURAL DIMENSIONS

A description of the four dimensions of culture is useful in helping explain the differences between various countries. But Hofstede has gone beyond this to show how countries can be - described in terms of pairs of dimensions.

Americans have very high individualism and relatively low power distance. They prefer to do things for themselves and are not upset when others have more power than they do. In fact, Americans are taught that everyone is equal, so individuals having important titles or jobs do not overly impress them. Australians, Canadians, British, new Zealanders have the same basic values and therefore can be clubbed together in one cluster.

The integration of these cultural factors into a two-dimensional plot- the uncertainty avoidance index against power distance- explains culture's effect on behaviour. A number of dimensions are at work and sometimes they do not all move in the anticipated direction.

5.7 EVALUATION OF HOFSTEDÉ'S WORK

5.7.1 Weaknesses:

Three problems have been identified in Hofstede's work.

- Like all other national cultural studies, it assumes that national territory and limits of culture correspond. It is not so in the case of smaller countries and in case of bigger countries there are subcultures.

- Hofstede's respondents worked within a single country and a single multinational. Here, the objection is that the unskilled manual workers are not taken into account, who may form bulk of population of that country.
- Some of the dimensions suggested overlap. For example, some traits of low distance are similar to the femininity dimension.

5.7.2 Strengths:

- The information population (IBM employees) is controlled across countries, which means comparisons can be made.
- The four dimensions tap deep into cultural values and make significant comparisons between national cultures.
- The connotations of each dimension are highly relevant. The questions asked of the informants relate to the issues of importance to international managers.
- No other study compares many national cultures in so much detail.

5.8 SUMMARY

The chapter focused on the need, importance and the problems related to cross cultural research. The most important study related to different cultures, i.e., Hofstede's study has been discussed. Culture influences both the thinking and behaviour of individuals, which in turn, affect the various decisions taken by managers in their organizations. The cross cultural research helps us to understand the national differences in culture.

5.9 SHORT ANSWER QUESTIONS

1. What is cross-cultural research? Discuss the various problems associated with cross cultural research.
2. Discuss the characteristics of the four cultural dimensions of Hofstede.

5.10 GLOSSARY

Culture a collective programming of the mind which distinguishes one group from another. **Power distance:** * the extent to which less powerful members of organizations accept that power is distributed unequally.

Uncertainty avoidance: - the extent to which people feel threatened by ambiguous situations, and have created beliefs and institutions that try to avoid those.

Individualism: - the tendency of the people to look after themselves and their immediate families only.

Masculinity: - a situation in which the dominant values in society are success, money and things.

5.11 Answers to Self Check Exercise

- cultural
- society
- culture

5.12 SUGGESTED READINGS

- Rao P.L., International Human Resource Management, Excel Books, New Delhi, 1st Edition, 2008.
- Gupta S.C., Textbook of International HRM, Macmillan India Limited, 1st Edition, 2006.

STRUCTURAL EVOLUTION OF GLOBAL ORGANIZATIONS

STRUCTURE

- 5.** Objectives
- 5.1 Introduction
- 5.2 International Business Structures
- 5.3 Stages of Structural Evolution of Multinationals
 - 5.3.1 Export (Stage 1)
 - 5.3.2 Initial Division Structure (Stage 2)
 - 5.3.3 Global Product/Area/Functional Structure (Stage 3)
 - 5.3.4 Global Matrix Structure (Stage 4)
 - 5.3.5 Self Check Exercise
- 5.4 Summary
- 5.5 Short Answer Questions
- 5.6 Glossary
- 5.7 Answers to Self Check Exercise
- 5.8 Suggested Readings

5. OBJECTIVES

After reading this chapter, the student should be able to:
structures.

5.1 INTRODUCTION

Organizational Structure: is the formal system of task and reporting relationships that controls, coordinates, and motivates employees so that they cooperate to achieve an organization's goals.

It is one of the major determinants of organizational efficiency and effectiveness. Organizations being open systems depend for their survival and growth upon their environment, which is becoming more and more dynamic due to globalization, technological convergence and socio-economic and political reasons. Multinationals are more sensitive to such environmental changes because of their operations in different countries, having different financial and political systems and cultures. Their response to environmental changes depends upon their decision making processes, which in turn, depend how they are structured or organized.

5.2 INTERNATIONAL BUSINESS STRUCTURES

Large multinational corporations require an organizational structure that can house the usual business functions - finance, marketing, R&D, production, etc. as well as those functions required for being successful beyond the domestic market. The most appropriate organizational structure will be determined by the overall global strategy of the firm, the relative size of international operations as compared to domestic operations, and the characteristics of the marketplace in which the firm competes.

The main objective of an organization structure of a multinational firm is to meet the needs of both the local market and the home office strategy of globalization. Structure is also influenced by the type of industry, as some industries face pressure for localization while others face pressure for globalization.

In spite of the need for a fast response to environment, most multinationals evolve through certain stages of structural changes in their operations. This rate of change is industry specific and also depends upon several other factors like demands of stakeholders and technology. But the most important factor is the rate of change in the domestic as well as international environment.

5.3 STAGES OF STRUCTURAL EVOLUTION OF MULTINATIONALS

5.3.1 Export (Stage 1):

An export or import or franchising arrangement is a common initial stage of international operations. The sales are through foreign agents or distributors until a critical sales volume is reached. In the initial stage, the company appoints an export manager who reports to chief of marketing in the company and all operations concerning exports and imports are controlled by the home office. The export manager deals with foreign agents and distributors, gaining knowledge of foreign markets.

At this stage, the responsibility of the human resource department is primarily selection of a suitable export manager for the firm, his training and performance appraisal.

5.3.2 Initial Division Structure (Stage 2):

If overseas sales continue to increase, the agents and distributors are replaced by direct sales with the establishment of branch offices in the market of the foreign countries. This stage occurs due to problems with agents and distributors, more confidence in international sales activity, and the desire to have greater control or to give extra thrust to exports. At this stage, the company creates an export division or function at the corporate home office and the export division head directly reports to the CEO. Export managers in countries where the company is extending its business reports to the export division.

As international sales increase further, the local governments exert pressure in these growing markets for setting up on-site manufacturing facilities. This prompts the company to set up a subsidiary and a branch office in concerned foreign countries for economic reasons as well as to please the local government. The structural arrangement of this type is as shown in figure 1

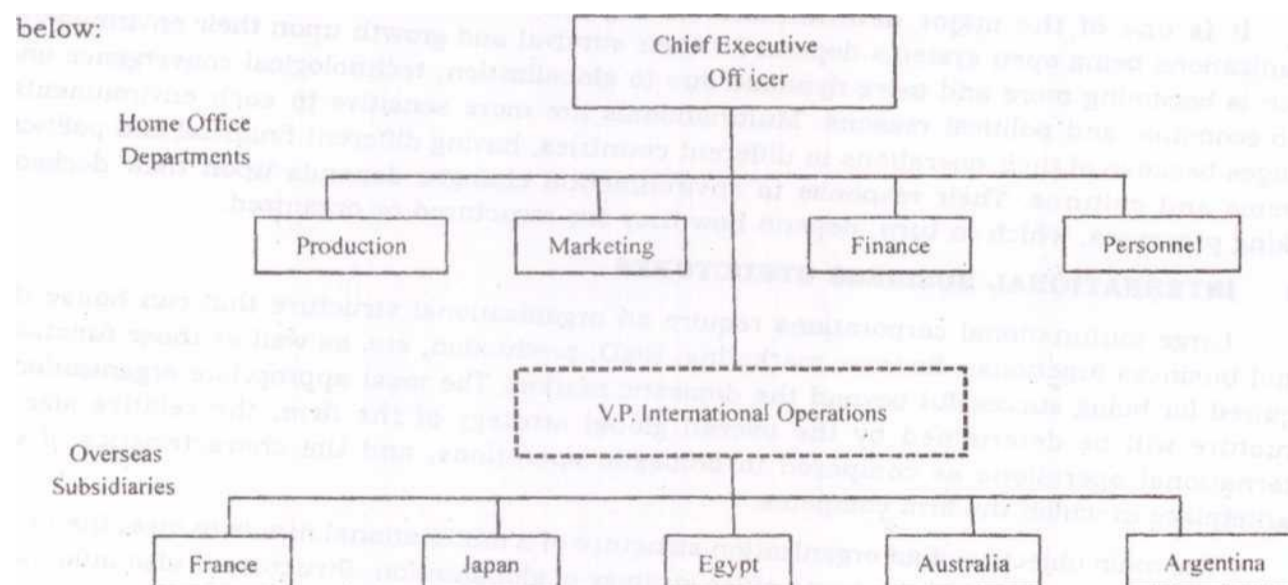


Figure 1: Use of subsidiaries during the early stage of internationalization

Each subsidiary is responsible for operations within its own geographical area, and the subsidiary manager reports directly to the export division head at the corporate office. This arrangement helps to take a great deal of burden off the CEO for monitoring and supporting the different subsidiaries in different foreign markets.

The human resource issues that arise at this stage are:

- Selection of the heads of these foreign subsidiaries and staffing them with PCNs or HCNs, according to the management philosophy. Generally, the ethnocentric approach is followed.
- The issues of expatriate selection, training, compensation and performance management arise.
- Transfer of managerial and technical know how to subsidiary from parent company
- Keeping the headquarters informed about political, economic and firm-related developments, opportunities and threats in its market
- Liaising with the local government and other important functionaries and build goodwill for the company

Advantages:

- The grouping of international activities under one senior executive ensures that international focus receives priority attention.
- It allows the company to develop unified approach to international operations.
- It helps the firm develop a cadre of internationally experienced managers.

Disadvantages:

- The structure separates the domestic and international managers and can result in creating two camps with divergent objectives.
- As the international operations get larger, the home office may find it difficult to think and act strategically and to allocate resources on a global basis.
- Most R & D efforts are still domestically oriented. So ideas for new products and processes in the international market are not given enough weightage in R & D priorities.

5.3.3 Global Product/Area/Functional Structure (Stage 3):

When companies start acquiring and allocating resources on the basis of global opportunities and threats, global structures are necessary either on product, geographical area or functional patterns. At this stage, the firm is also standardizing its product, diversifying and globalizing its supply chain, raising capital in international markets and enhancing its technological capabilities by technology transfers and strategic alliances. Relationships with governments and regulators also require increasing attention. Due to the increasing size of the firm the international division is overstretched, affecting efficiency of operations and communications. Therefore, there may be tension between the subsidiaries and the international division at the HQ.

At this stage, demand for local responsiveness at the subsidiary unit develops because of differences in market structures, distribution channels, customer needs, local culture or pressure from the host government, and investment availability. At the same time, the need for centralized global integration is felt at the HQ due to growing multinational customers, global competitors, rapid flow of information and technology, and the quest for large volume to attain economies of scale. Competition from other multinationals and domestic firms also increases. As a result, the

firm has to decide about the degree of decentralization, i.e., which key decisions are to be made at the subsidiary level and which ones at the corporate office. Similarly, the firm has to decide the type and form of control to be exercised in managing the subsidiary and also how the corporate office can add value to the management of the subsidiary. The structure is as shown in figure 2 below:

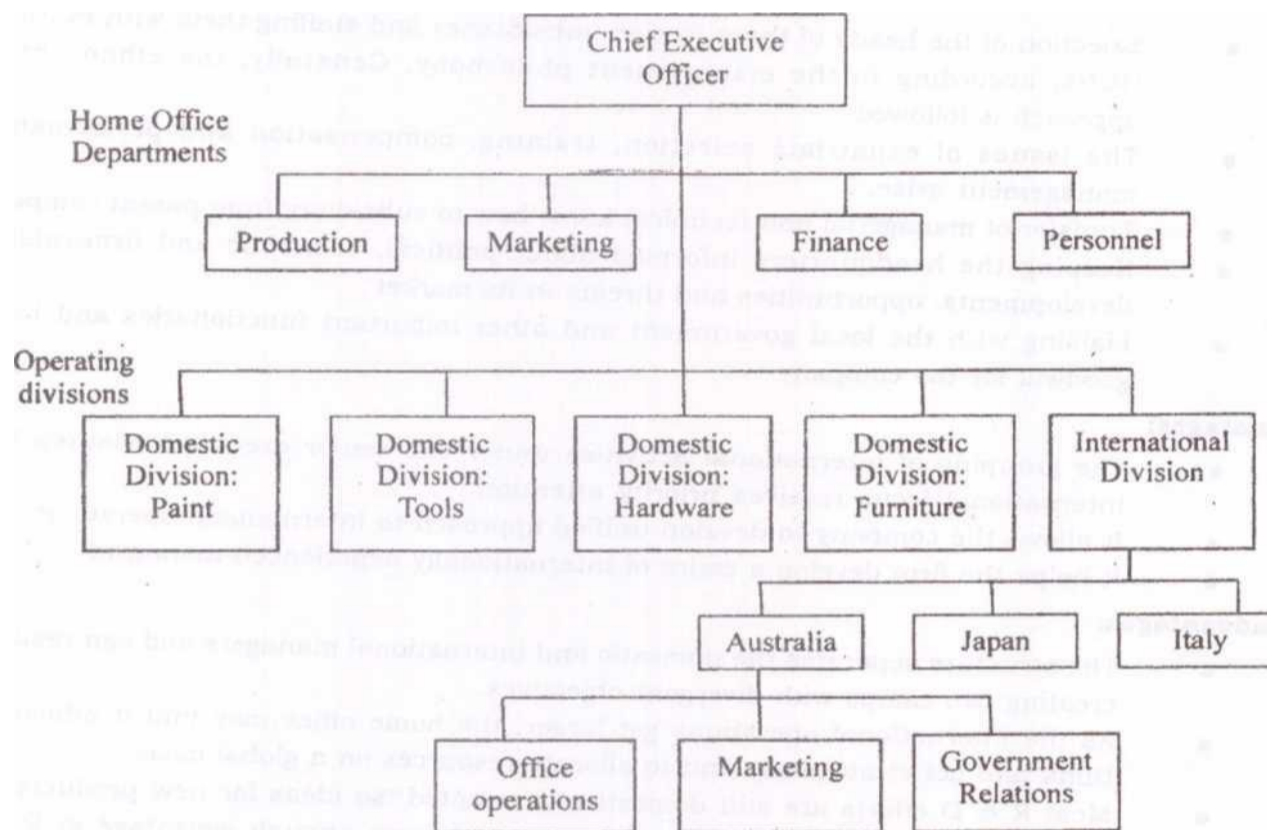


Figure 2: An International Division Structure

(i) Global product division

In this structure, the company treats each of its major products as distinct strategic business units (SBUs). Divisions/functions at the corporate office are given worldwide responsibility for production, finance, marketing and management of supply chain for each product or product line. These product divisions also have internal functional support. The structure is as shown in figure 3 below:

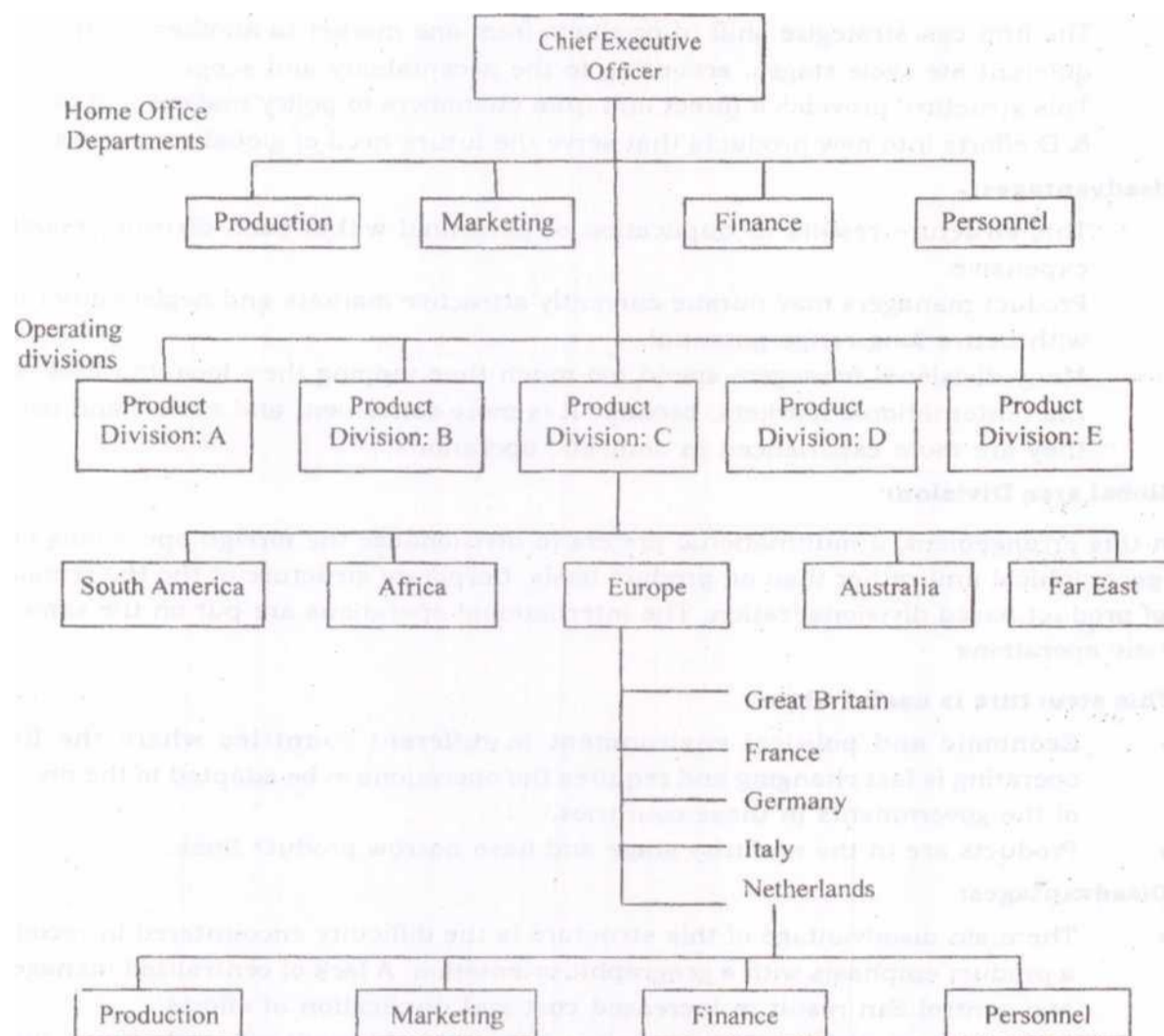


Figure 3: A Global Product Division Structure

The logic behind this type of structure is that products and services of the company should be sufficiently distinct in production technologies, requiring different marketing skills to deal with different type of customers and markets. Each product division is treated as a separate profit centre for accounting and finance purposes. The products are generally in the growth stage of the product life cycle. The corporate headquarters will maintain control in terms of budgetary constraints, approval of certain decisions, like launching of new products, total profit and contribution.

Advantages:

- If the firm is very diverse, the need to customize the product to the specific demands of the buyer becomes important. It improves client satisfaction because product responsibility and contact points are clear. Different units can adapt to differences in products, cultures and market practices in various regions.
- This structure also helps to integrate marketing, production and finance globally on product basis.

- The firm can strategize shift of products from one market to another as they reach different life cycle stages, according to the acceptability and scope;
- This structure provides a direct link from customers to policy makers and directs R & D efforts into new products that serve the future need of global customers.

Disadvantages:

- This structure results in duplication of personnel within each division, making it expensive.
- Product managers may pursue currently attractive markets and neglect other areas with better long-range potential.
- Many divisional managers spend too much time tapping their local markets rather than international markets, because it is more convenient and easier, and because they are more experienced in domestic operations.

(ii) Global area Division:

In this arrangement, a multinational prefers to divisionalize the foreign operations on the basis of geographical unit rather than on product basis. Corporate structure at the HQ remains as in case of product based divisionalization. The international operations are put on the same level as domestic operations.

This structure is useful when:

- Economic and political environment in different countries where the firm is operating is fast changing and requires the operations to be adapted to the pressures of the governments in those countries.
- Products are in the maturity stage and have narrow product lines..

Disadvantages:

- The main disadvantage of this structure is the difficulty encountered in reconciling a product emphasis with a geographic orientation. A lack of centralized management and control can result in increased cost and duplication of efforts.
- Research and divisional groups often ignore development efforts because they are selling goods that have reached the maturity stage. Their focus is not on the latest technologically superior goods that will win in the market in the long run, but on those that are proven winners and are now being conveniently marketed worldwide.

The structure is as shown in figure 4 below:

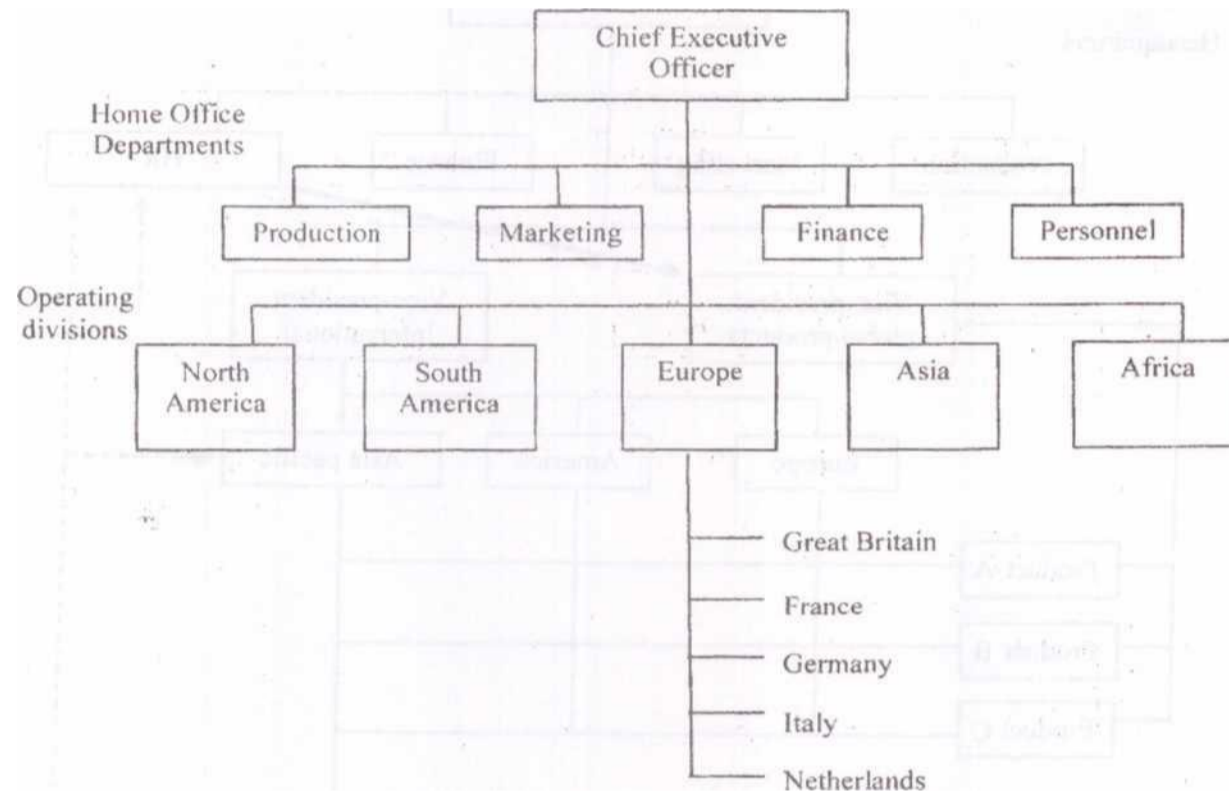


Figure 4: A Global Area Division Structure (iii) Global

functional structure:

This structure is not very common except in mining and construction fields. Here the operations are divided worldwide on the basis of functions - Marketing, Finance, Operations and HRM and the subsidiaries directly report to corporate functional chiefs.

5.3.4 Global Matrix Structure (Stage 4):

When a multinational is trying to integrate its operations in more than one dimension, like product as well as area, or customers and technology, it resorts to the matrix structure. Both the product division and area division share joint responsibility. This means that both executives jointly decide allocation of resources and other important matters, but the matrix manager is responsible for the results. The structure is as shown in figure 5 below:

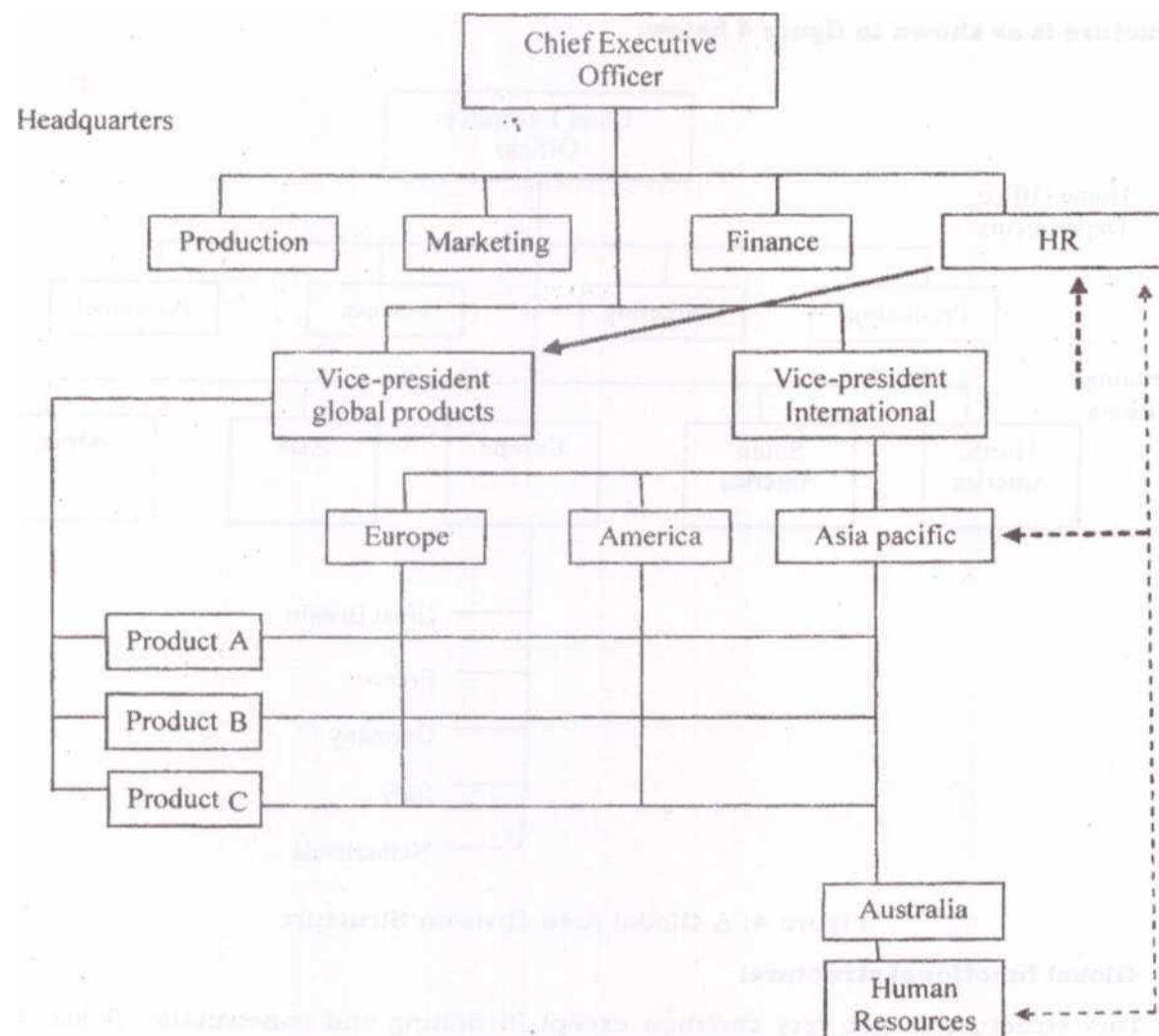


Figure 5: The Matrix Structure

In this structure, there is pressure from horizontal matrix managers for equal allocation of resources; however, the vertical managers are supposed to balance this by taking into account the relative importance of products or projects based on organizational priorities and other long-term considerations.

Advantages:

- This structure reflects the process of decision making and results in better quality decisions.
- It also results in better customer focus or final results or response to local needs. **Disadvantages:**
- As the design complexity increases, coordinating the personnel and getting everyone to work towards a common goal often becomes difficult.
- Some employees experience dual authority, which is frustrating and confusing.
- The matrix also forces managers to spend a great deal of time in meetings. If managers do not adapt to information and power sharing required by the matrix, the system will not work. They must collaborate with each other rather than rely on vertical authority in decision making.

5.3.5 Self Check Exercise

- The _____ is the formal system of task and reporting relationships that controls, coordinates, and motivates employees.
- In the Initial Division Structure stage, the company establishes branch offices in foreign countries due to problems with _____ and _____.
- The Global Product/Area/Functional Structure is necessary when companies start acquiring and allocating resources based on _____ opportunities and threats.
- In the Global Product Division Structure, each major product is treated as a distinct _____.
- The Global Area Division Structure is useful when economic and political environments in different countries are _____ and require adaptation.

5.4 SUMMARY

This chapter focused on the various stages in the evolution of organizational structures of the multinational companies. An export or import or franchising arrangement is the initial stage of international operations. If the sales continue to increase, the company establishes branch offices in the market of foreign countries. This is the second stage in the evolution of global organization structures. When companies start acquiring and allocating resources on the basis of global opportunities and threats, global structures are necessary either on product, geographical area or functional patterns. When a multinational is trying to integrate its operations in more than one dimension, like product as well as area, or customers and technology, it resorts to the matrix structure.

5.5 SHORT ANSWER QUESTIONS

1. Discuss the evolution of organizational structure of global organizations.
2. Discuss the global matrix structure of a multinational company.

5.6 GLOSSARY

Organizational structure: - the formal system of task and reporting relationships that controls, coordinates, and motivates employees so that they cooperate to achieve an organization's goals.

5.7 Answers to Self Check Exercise

- **Organizational Structure**
- **agents and distributors.**
- **Global**
- **strategic business unit (SBU)**
- **fast changing**

5.8 SUGGESTED READINGS

- Rao P.L., International Human Resource Management, Excel Books, New Delhi, 1st Edition, 2008.
- Gupta S.C., Textbook of International HRM, Macmillan India Limited, 1st Edition, 2006.

LEADERSHIP ACROSS BORDERS AND CULTURES

STRUCTURE

- 6. Objectives
- 6.1 Introduction
- 6.2 Functions of Leadership across Borders and Cultures
- 6.3 Leadership in India
- 6.4 Leadership in the Arab World
- 6.5 Self Check Exercise
- 6.6 Leading in an Increasingly Interconnected World
- 6.7 Summary
- 6.8 Short Answer Questions
- 6.9 Answers to Self Check Exercise
- 6.10 Suggested Readings

6. OBJECTIVES

After reading this chapter, the student should be able to:

- Understand the concept of global leadership.
- Know how leadership differs across borders and cultures.

6.1 INTRODUCTION

The emergence of leadership, especially the way a leader influences followers, is often a product of cultural factors. Deeply ingrained values regarding the rights and duties of employees differ from country to country and present different worldviews. These values, reflected in laws, constitutions, and various social customs, provide prescriptions for leadership behavior.

The act of leadership is often a product of socially and culturally constructed legal, moral, ethical, and work obligations. For example, in Western Countries, such as the United States, United Kingdom, Sweden, and Norway, women are becoming organizational leaders, and the concept of equalizing pay between men and women has received considerable attention. Although some social barriers conflict with the cultural ideals of equality, most Westerners clearly anticipate that women have the potential for leadership. In contrast, in high power distance countries, such as Mexico, China, Saudi Arabia, and Japan, women do not have much opportunity to advance

their career or to become leaders in their organizations. A study of Arab executives and foreign expatriates in the United Arab Emirates reported that a consultative or participative style was preferred by both groups. However, other studies have found that in Jordan and other Middle Eastern countries, an authoritative management style was preferred. Autocratic styles of leadership have also been found in Indian managers.

The political values of a country also influence the type of leader that will emerge and how leaders function. Political culture reflects idealized values about effective leadership and can exercise strong influences on how leaders should act in the workplace. Countries with democratic traditions, such as the United States, United Kingdom, Sweden, and Germany, have well-defined processes that encourage participative leadership, whereas countries with autocratic political

philosophies, such as most Middle Eastern, Latin American, and Asian countries, tend to favor no participation by followers.

The culture of the organization affects the type of leaders that will emerge and how they function. One view proposes that leader's major contribution is the effective management of organizational culture. Leaders create, maintain, and play a major role in changing organizational culture, but we should note that they are also influenced by the constraints and values of their company. For example, a leader who favors equal participation of men and women in senior management ranks might find difficulty in sustaining this in a company where the past tradition did not favor equal treatment of women. Another example is where the leader has a preference for decentralized decision making but does not find support for the change in an organization that had the tradition of centralized decision making.

6.2 FUNCTIONS OF LEADERSHIP ACROSS BORDERS AND CULTURES

Some functions of leadership are similar across borders and cultures; however, the definition of an effective leader varies greatly across cultures. The generally accepted images of leaders in different countries are important to understand. Industry leaders in Mexico, India, Italy and France are highly regarded for their social status and access to political power. In many countries in Latin America, such as Brazil, Argentina and Chile, organizational leaders are expected to present a holistic view of themselves, be prominent in society, and have a strong appreciation for the arts. Decisiveness and knowledge of the industry are respected in leaders in Germany, Poland, and Russia, where they receive a great deal of formal organizational prestige.

Research of leadership from the U.S. perspective is mostly concerned with managerial behaviors and tends to describe leaders as autocratic versus democratic, participative versus directive, task- versus relationship-oriented. These styles of leadership reflect opinions of mostly U.S. workers and subordinates in terms of what they consider to be effective. For example, the democratic, participative, and consultative style of leadership has generally been found to be beneficial in maintaining effectiveness of leaders in the United States. Managers of multinational and global corporations should remember that considerable changes may be needed in their leadership styles when they go abroad to manage a subsidiary or when they manage culturally diverse workforce in their home countries.

Research on leadership clearly tells us that no style of leadership works well in all cultures and nations. A significant amount of research supports the idea that culture acts as a contingency factor in exercising leadership. This means that culture-based norms, beliefs, roles, and values about what is expected of leaders, the influence they have over their subordinates, and the amount of organizational status or prestige that they are given vary across nations.

6.3 LEADERSHIP IN INDIA

India is an emerging giant. The findings from various research programs confirm the complexity and diversity of Indian society and culture, resulting in the need for special types of leadership. Indian culture has functioned by referring to the past, but it is currently undergoing a rapid transition to a modern society. Values of individualism tend to characterize a large portion of Indians in urban areas. Although management in India was based on autocratic processes, formal authority, and charisma, a move toward emphasizing democratic processes in the workplace is under way. Family values tend to influence a significant number of leaders in their decisions and nurturing leadership

(taking a personal interest in the well being of each subordinate) is still expected from managers, but changes, particularly in high-technology firms, are apparent.

Companies such as Gillette, Rank-Xerox, Texas Instrument, and Microsoft are encountering these issues and are developing programs that integrate Indian values into the work context. Failure to include an Indian partner who understood the styles of Indian management and leadership led to problems between former energy giant Enron and the Indian government, and Enron decided not to build plants in India in 2001.

6.4 LEADERSHIP IN THE ARAB WORLD

Leadership behavior in Arab countries is strongly influenced by the belief systems of the Islamic religion and past traditions, as well as by some Western values. The patriarchal approach found in these cultures is called sheikocracy. This style reflects an emphasis on hierarchical authority, personal connections, human relations, and conformity to rules and regulations based on the personality and power of those who made the rules. Efficiency and effectiveness are not as important. The combination of this leadership style with influences from Western management practices has produced a duality in managers in the Arab world, who aspire to become more sophisticated and modern in their leadership styles yet remain tied to traditional values. The Arab world is an important and growing part of the global marketplace, and international and global managers should be aware of this duality.

Companies such as Gillette, Rank-Xerox, Texas Instruments, and Microsoft are encountering these issues and are developing accordingly.

6.5 Self Check Exercise

- The act of leadership is often a product of socially and culturally constructed _____, moral, ethical, and work obligations.
- In high power distance countries, such as Mexico, China, Saudi Arabia, and Japan, women do not have much opportunity to advance their career or to become leaders in their organizations due to _____.
- Countries with democratic traditions, such as the United States, United Kingdom, Sweden, and Germany, encourage _____ leadership, whereas countries with autocratic political philosophies tend to favor no participation by followers.
- The culture of the organization affects the type of leaders that will emerge and how they function, and leaders play a major role in changing and managing _____.
- Research on leadership indicates that _____ acts as a contingency factor in exercising leadership, varying across nations.

6.6 LEADING IN AN INCREASINGLY INTERCONNECTED WORLD

The meaning of leadership will change in a world where companies are flexible and fluid, and the pace of change is rapid. Leading in e-business and virtual organizations is different from leading in traditional organizations. The differences between leadership in traditional organizations and e-businesses are the speed at which decisions must be made, the importance of flexibility, and the need to create an ongoing vision of the future. While data may be available to make rapid decisions, the knowledge that results from the data may be hard to obtain. Maintaining flexibility is easier said than group or organization when they find that something that worked in the past does not work any longer.

Continuous focus on the vision is difficult. In a cyber world, people expect more from their leaders. The rules, policies, and regulations that are used in traditional companies reduce uncertainty for both leaders and followers, but this is not the case in cyber world. Since formal guidelines have short life spans in digital organizations, it becomes the leader's responsibility to provide continuous direction as to where the company is headed. Getting employees to accept the vision may require more radical actions- actions that might not have been necessary in the past. Regardless of whether the digital company exists in an individualist or collectivistic culture, and national differences may not matter as much as differences rooted in the company culture.

6.7 SUMMARY

The process of leading others is one of the most complex yet least understood areas of management. The perception of what a good leader is, in terms of both traits and behaviors,

varies a great deal from society to society and the act of leadership itself is a product of culture. Outcomes of leadership are embedded in a complex web of societal, cultural, and Organizational factors which determine the emergence and effectiveness of leadership.

6.8 SHORT ANSWER QUESTIONS

- Q1. How will the exercise of leadership in a digital organization differ from that in traditional organizations?
Q2. How do leadership functions differ across borders and cultures?

6.9 Answers to Self Check Exercise

- Legal
- cultural ideals of equality
- participative
- organizational culture
- culture

6.10 SUGGESTED READINGS

- S.C.Gupta, International HRM, Macmillan India Ltd. 2006.
- Helen Deresky, International Management: Managing across Borders and Cultures, Prentice Hall of India, 4th edition

CROSS CULTURAL COMMUNICATIONS AND NEGOTIATIONS

STRUCTURE

- 7. Objectives
- 7.1 Introduction
- 7.2 Cross Cultural Communications
- 7.3 Self Check Exercise
- 7.4 Cross Cultural Negotiation
- 7.5 Short Answer Questions
- 7.6 Answers to Self Check Exercise
- 7.7 Reference readings

7. OBJECTIVES

After reading this chapter, the student should be able to:

- Understand the cross cultural communication
- To know the concept of intercultural communications
- To know about cross cultural negotiation
- To know the parameters of negotiation

7.1 INTRODUCTION

Cross-cultural communication, as in many scholarly fields, is a combination of many other fields. These fields include anthropology, cultural studies, psychology and communication. The field has also moved both toward the treatment of interethnic relations, and toward the study of communication strategies used by co-cultural populations, i.e., communication strategies used to deal with majority or mainstream populations. The study of languages other than one's own can not only serve to help us understand what we as human beings have in common, but also assist us in understanding the diversity which underlies not only our languages, but also our ways of constructing and organizing knowledge, and the many different realities in which we all live and interact. Such understanding has profound implications with respect to developing a critical awareness of social relationships. Understanding social relationships and the way other cultures work is the groundwork of successful globalization business efforts.

7.2 CONCEPT OF CROSS CULTURAL COMMUNICATIONS

Cross-cultural communication: (also frequently referred to as intercultural communication, which is also used in a different sense, though) is a field of study that looks at how' people from differing cultural backgrounds communicate, in similar and different ways among themselves , and how they endeavour to communicate across cultures. Cross-cultural communication tries to bring together such a relatively unrelated areas as cultural anthropology and established areas of communication. Its core is to establish and understand how people from different cultures communicate with each other. Its charge is to also produce some guidelines with which people from different cultures can better communicate with each other.

Intercultural Communication: is sometimes used synonymously with cross-cultural communication. In this sense it seeks to understand how people from different countries and cultures act, communicate and perceive the world around them. As a separate notion, it studies

situations where people from different cultural backgrounds interact. Intercultural communication plays a role in anthropology, cultural studies, linguistics, psychology and communication studies.

Intercultural Communicative Competence has been said to combine three components:

knowledge (= information necessary to interact appropriately and effectively)

motivation (e.g. positive affect toward the other culture, empathy)

skills (= behavior necessary to interact appropriately and effectively)

Tips for approaching cross cultural communications:

- Avoid ethnocentrism
- Look beyond stereotypes
- » Seek common ground
- » Observe non-verbal cues **Study your own,**

and other culture:

Cross-cultural communication: will be outlined and demonstrated by examples of ideas, attitudes, and behaviors involving four variables:

Time and Space

Fate and Personal Responsibility

Face and Face-Saving

Non-verbal Communication

As our familiarity with these different starting points increases, we are cultivating cultural fluency — awareness of the ways cultures operate in communication and conflict, and the ability to respond effectively to these differences.

Time and Space:

Time is one of the most central differences that separate cultures and cultural ways of doing things. In the West, time tends to be seen as quantitative, measured in units that reflect the march of progress. It is logical, sequential, and present-focused, moving with incremental certainty toward a future the ego cannot

Fate and Personal Responsibility:

Another important variable affecting communication across cultures is fate and personal responsibility. This refers to the degree to which we feel ourselves the masters of our lives, versus the degree to which we see ourselves as subject to things outside our control. Another way to look at this is to ask how much we see ourselves able to change and maneuver, to choose the course of our lives and relationships. Some have drawn a parallel between the emphasis on personal responsibility in North American settings and the landscape itself.

Face and Face-Saving:

Another important cultural variable relates to face and face-saving. Face is important across cultures, yet the dynamics of face and face-saving play out differently. Face is defined in many different ways in the cross-cultural communication literature. Novinger says it is “the value or standing a person has in the eyes of others...and that it relate[s] to pride or self-respect.” Others have defined it as “the negotiated public image, mutually granted each other by participants in [communication].” In this broader definition, face includes ideas of status, power, courtesy, insider

and outsider relations, humor, and respect. In many cultures, maintaining face is of great importance, though ideas of how to do this vary.

Nonverbal Communication:

Nonverbal communication is hugely important in any interaction with others; its importance is multiplied across cultures. This is because we tend to look for nonverbal cues when verbal messages are unclear or ambiguous, as they are more likely to be across cultures (especially when different languages are being used). Since nonverbal behavior arises from our cultural common sense — our ideas about what is appropriate, normal, and effective as communication in relationships — we use different systems of understanding gestures, posture, silence, special relations, emotional expression, touch, physical appearance, and other nonverbal cues. Cultures also attribute different degrees of importance to verbal and nonverbal behavior.

7.3 Self Check Exercise (True/False)

- Cross-cultural communication is a field that combines anthropology, cultural studies, psychology, and communication.
- The study of languages other than one's own can help in understanding the diversity underlying languages, ways of constructing knowledge, and various realities.
- Intercultural Communication is a separate notion that studies situations where people from different cultural backgrounds interact.
- Intercultural Communicative Competence includes components such as knowledge, motivation, and skills.
- Time is seen as quantitative and logical in Western cultures.
- Fate and Personal Responsibility refer to the degree to which individuals feel they can control and maneuver their lives.

7.4 CROSS CULTURAL NEGOTIATION

Negotiation and Diplomacy:

Negotiation is a dialogue between two or more parties who are trying to work out solution to their problem. This interpersonal or inter group process can occur at a personal level, as well as at the corporate or international (diplomatic) level. Negotiations typically take place because the parties wish to create something new that neither could do on his or her own, or to resolve a problem, or to make a deal with each other.

The parties acknowledge that there is a conflict of interest between them and think that they can use some form of influence to get a better deal, particularly when interdependence will have a major impact on the nature of their relationship, the way negotiations are conducted, and the up come of these negotiations. Mutual adjustment is one of the key causes of the changes that occur during negotiations. Both parties know that they can each influence the other's outcomes. The effective negotiator attempts to understand how people will adjust and readjust their positions during negotiations, based on what the other party does and is expected to do.

The parties have to exchange information and make an effort to influence each other. As negotiations evolve, each side proposes changes to the other party's position and makes changes to its own proposals. This process of give-and-take is necessary if a settlement is to be reached. If one party makes several proposals that are rejected, and the other party makes no alternate proposals, the first party may break off negotiations.

Parties typically will not concede much if they sense that other party is not willing to compromise. The parties must work towards a solution that takes into account each person's requirements and optimizes the outcomes for both.

The Anatomy of Negotiation:

This reveals the hidden or less clearly visible issues relevant to the negotiation process. It is necessary to look at the negotiation process and techniques before moving to cross-cultural considerations in the negotiation process. Negotiations involve two levels- one is the rational decision-making level, the other is at the psychological and social levels. Psychological and social elements are affected by culture; therefore, negotiations are as much to do with the psychological as with the rational.

Failure to optimally resolve the psychological factors that affect negotiation will include

such elements as attitudes, persuasion styles, goals and expectations, perceptions and misperceptions, the need to avoid conflict, the need to win and so on. The ripe moment for a solution is when a deadlock seems likely and the costs of not reaching an agreement are rising for both parties. Then, an alternative emerges for achieving the original goals, and the likely cost of lost opportunity is so high that the alternative is irresistible.

Preparation for Negotiation:

All negotiations, particularly international ones, demand planning and preparation. Preparation includes collecting information about the negotiation context, which includes:

Taxation and legal data: The transaction may be taxed in more than one country and contracts may be subject to two or more legal systems.

Commercial data: Payment terms including an advance amount desired, Acquisition of land, obtaining permission and clearances like environment clarity and so on. Financial and economic data: Size of the economy, speed of growth, inflation investment policies, subsidies and tax incentives, banking system, financial securities repatriation of earnings. Infrastructure data: Size of population and other demographic data, road and systems and other communications.

Labour force data: Skills available, education standards, training facilities.

Political data: Who has power and who supports and opposes your plan national, regional and local levels?

Trade unions.

Cultural data.

Parameters of Negotiation:

Where to negotiate

When to negotiate

Who Negotiates

Who has the authority to decide?

Why negotiate

How to negotiate

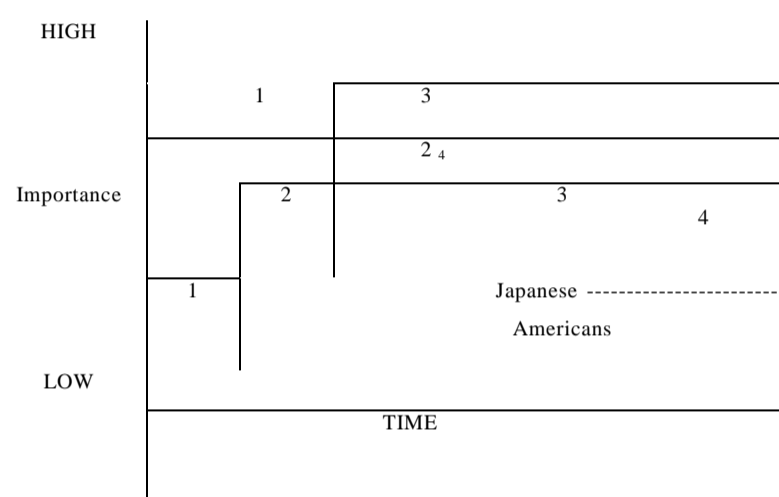
How much time is needed for negotiation:

In theory negotiating in one's homeland gives territorial advantage, including consultation with others in one's company and availability of information. However meeting at the negotiating party's premises gives you insights into how they manage their operations and their capacities. It also enables one to hide from other compare at each other's place makes a compromise.

The timing of holding the negotiation is also critical. The parties should meet when the problem is ripe and both parties need a solution. One should avoid holiday and religious festivals, such as the month of Ramadan in Arabia, Chinese lunar New Year or Christmas in the West. Timing the negotiation also involves planning the schedule how often should the parties meet, and at what interval.

It is also important to estimate how much time is required for conducting negotiations. Decision making in collectivist cultures takes longer because a consensus has to be built among interested parties within the firm. Sometimes, after a consensus has been built, negotiators may be unwilling to make radical concessions, which mean creating a new consensus. Negotiators

from China often demand large amount technical information and progress may be delayed due to this Ghauri (1988) concluded from his study of deals between Swedish, Indian and Nigerian firms that negotiation with unfamiliar parties takes more than double the time taken with familiar parties. Time spent by US and Japanese negotiators on various activities during negotiations given in fig 4.1.



1 = Non-task time (building relationship)

2 = Information exchange

3 = Influence building

4 = Conclusion and agreement

Fig. 4.1 Average Time Spent by American and Japanese Negotiators on Various Activities

Figure 4.1 makes it clear that the Japanese assign high importance to relationship building and take longer than Americans in this. On the other hand, Americans assign high importance to influence building through arguments and take a longer time in this. They also give importance to agreement drawing matters, while the Japanese give it low importance and less time.

Profiling: It pays to build up a profile of the company with which you are negotiating. This requires information about Ownership and legal status; history Equity structure, current financial circumstances Size, markets and distribution network Strategic interest and scope, suppliers, customers, partners, competitors, industrial relations and technology

Organization structure, systems and culture General/national structure, systems, culture. This profile should be updated from time to time.

7.5 SHORT ANSWER QUESTIONS

1. What is the concept cross cultural communications?
2. Difference between cross cultural and intercultural communication?
3. Describe cross cultural negotiation?
4. What are the parameters of negotiation?

7.6 Answers to Self Check Exercise

- True
- True
- True
- True
- True
- True

7.7 SUGGESTED READINGS

Gupta S.C., Textbook of International HRM , Macmillan India Limited, 1st Edition, 2006.

INTERNATIONAL HUMAN RESOURCE PRACTICES

STRUCTURE

- 8. Objectives
- 8.1 Introduction
- 8.2 Human Resource Planning
 - 8.2.1 Forecasting Human Resources
 - 8.2.2 Net HR Requirements
 - 8.2.3 International Labour Market - Sources
 - 8.2.4 Executive Nationality Staffing Policies
- 8.3 Training and Development
 - 8.3.1 Expatriate Training
 - 8.3.2 Components of Effective Predeparture Training Programmes
 - 8.3.3 Developing International Staff
- 8.4 Compensation and Benefits
 - 8.4.1 Approaches to International Compensation
 - 8.4.2 Taxation
 - 8.4.3 Self Check Exercise
- 8.5 Performance Management
 - 8.5.1 Multinational Performance Management
 - 8.5.2 Criteria Used For Performance Appraisal of International Employees
- 8.6 Repatriation
 - 8.6.1 The Repatriation Process
- 8.7 Summary
- 8.8 Short Answer Questions
- 8.9 Glossary
- 8.10 Answers to Self Check Exercise
- 8.11 Suggested Readings

8. OBJECTIVES

After reading this chapter, the student should be able to:

- Understand the various international human resource practices.
- Get an insight into the various approaches of different IHRM practices.

8.1 INTRODUCTION

If large corporations intend to retain their domestic operations and still be competitive with respect to cost and quality, they will have to improve their human resource management. Employees must be viewed as valuable assets - resources that are vital to the successful performance of the organization. Talented people must be attracted to join the organization, developed to perform at high levels, and encouraged to remain with the organization with loyalty and commitment to the organization and its objectives.

The four generic processes: selection, performance appraisal, rewards management and human resource development reflect sequential managerial tasks. Performance, in other words, is a function of all the human resource components: selecting people who are able to best perform

the job defined by the structure, motivating employees by rewarding them judiciously, training and developing people for future performance and appraising employees in order to justify the rewards.

8.2 HUMAN RESOURCE PLANNING

The major underlying objective of human resource planning is to lay the foundation from which the organization will always have the right people in the right place to do the work required by the organization. Human resource planning is a part of the overall strategic planning of the employing organization and includes factors such as: environmental scanning, business and economic forecasting, developing and maintaining a competitive advantage in the marketplace, determining long-range technical needs etc.

Job analysis:

It is the systematic study of job requirements and those factors that influence the performance of those job requirements. Typically, a job analysis is the first, step in the staffing process and is designed to identify who is to do what, where, when, and how.

Job analysis usually concentrates on work activities, performance standards, work technologies, job-related tangibles and intangibles, job context and personal requirements.

The information collected through the job analysis is used, in turn, to create a written job description and a written job specification.

8.2.1 Forecasting Human Resources:

Human resource forecasting is the process by which an organization estimates its future human resource needs. The process of human resource forecasting is a two-stage operation.

- First, it is necessary to forecast future human resource needs in terms of job description, quantity, location needed, and timing.
- Second, it is necessary to make a forecast of the internal supply of human resources by surveying existing employees to identify available skills, knowledge, aptitudes, promotability, trainability, and the identity of key personnel.

The demand for the organization's product or service is estimated in the light of potential changes in the environment. The overall sales forecast is then estimated. A staffing budget for each department is then estimated and then overall staffing requirements are estimated.

8.2.2 Net HR Requirements:

• Determining the requirements:

Once an organization has estimated its future demand and supply of human resources, the next step in the staffing process is to match the two forecasts to identify areas of future overstaffing and areas of future manpower shortages. If there is a predicted problem with overstaffing, the problem may be resolved by utilizing attrition, offering early retirements, transferring people to understaffed areas, and terminating people. If there is a predicted shortfall of employees for the future, the problem may be resolved by discouraging retirements, hiring new people, transferring people from overstaffed areas, and installing labor saving equipment and processes.

• Recruitment:

Recruitment may be defined as the process by which an organization attracts people to

apply for their job openings. The goal is to recruit a pool of qualified candidates from which the desired people may be selected. Both internal and external sources of recruitment may be used.

- **Realistic Job Previews:**

One technique of the recruitment process is known as the realistic job preview (RJP), by which every candidate is given all the pertinent and realistic information about the job and the organization. Both the positive and negative sides of the job and the firm are included.

- **Selection:**

Selection may be defined as the process by which the organization chooses from among the applicants, those people who are perceived the best to meet the job requirements. For each candidate, the organization evaluates candidate skills, education, experience, and so on to find the people who best 'fit' the particular job specification.

8.2.3 International Labour Market - Sources:

There are three basic sources the MNCs can tap for overseas positions: home or parent country nationals (PCNs); host country nationals (HCNs) and third country nationals (TCNs).

a) Parent Country Nationals (PCNs):

PCNs are managers who are citizens of the country where the MNC is headquartered. These managers are commonly called expatriates, which refers to those who live and work away from their parent country. There are a variety of reasons for using PCNs. The most common reason was to start up operations. MNCs prefer to have their own people launch a new venture. The second reason was that the parent country people had the necessary managerial and technical expertise.

b) Host Country Nationals (HCNs):

HCNs are local managers who are hired by the MNC. There are many reasons for hiring them at the lower or middle-level ranks:

- These individuals are familiar with the culture
- They know the language
- They are less expensive and know the way things are done
- Hiring them helps to make good public relations.

c) Third Country Nationals (TCNs):

TCNs are managers who are citizens of countries other than the one in which the MNC is headquartered or the one in which it is assigned to work by the MNC. Two reasons why American MNCs use third country nationals are:

- These people have the necessary expertise
- They were judged to be best ones for the job.

Japanese companies usually do not hire TCNs. US companies usually prefer TCNs from Europe. TCNs are found typically in large MNCs in advanced stages of growth.

8.2.4 Executive Nationality Staffing Policies:

The four approaches to multinational staffing decisions - ethnocentric, polycentric, geocentric and regiocentric - tend to reflect the managerial philosophy towards international operations held by top management at headquarters.

a) The Ethnocentric Approach

An ethnocentric approach to staffing results in all key positions in a multinational being filled by parent country nationals. While this approach may be common for firms at the early stages of internationalization, there are sound business reasons for pursuing an ethnocentric staffing policy:

- A perceived lack of qualified host-country nationals and
- The need to maintain good communication, coordination, and control links with the corporate headquarters.

b) The Polycentric Approach:

A polycentric staffing policy is one in which HCNs are required to manage subsidiaries in their own country and PCNs occupy positions at corporate headquarters. The main advantages of a polycentric policy are:

- Employing HCNs eliminates language barriers, avoids the adjustment problems of the expatriate managers and their families and removes the need for expensive cultural awareness training programmes.
- Employment of HCNs allows a multinational company to take lower profile in sensitive political situations.
- Employment of HCNs is less expensive.
- Employing HCNs gives continuity to the management of foreign subsidiaries.

c) The Geocentric Approach:

The geocentric approach option utilizes the best people for the key jobs throughout the organization, regardless of nationality. There are two main advantages to this approach: it enables a multinational firm to develop an international executive team, and it overcomes the "federation" drawback of the polycentric approach.

d) The Regiocentric Approach:

The regiocentric policy can be described as 'functional rationalization on a more than one country basis'. One motive for using a regiocentric approach is that it allows interaction between executives transferred to regional headquarters from subsidiaries in the region and PCNs posted to the regional headquarters.

8.3 TRAINING AND DEVELOPMENT

The management-philosophy of a company, whether ethnocentric, polycentric, regiocentric, also influences the type of training. For example, ethnocentric companies will provide training at the headquarters and these will be designed and delivered by home nationals. On the other hand, polycentric companies will rely on local managers to assume responsibilities for seeing that the training function is carried out wherever appropriate. Geocentric companies organize training courses in different parts of the world, where a particular function is being best carried out.

8.3.1 Expatriate Training:

Most expatriates, whether PCNs or TCNs, are selected from within the multinational's existing operations, though, some expatriates may be hired externally. Once an employee has been selected for an expatriate position, predeparture training is considered to be the next critical step. This is an important attempt to ensure some cultural familiarity, especially if the expatriate's host country

is considered culturally tough. Some form of cultural preparation is indicated because functional ability alone does not determine success. Effective cultural training also enables individuals to adjust more rapidly to the new culture.

8.3.2 Components of Effective Predeparture Training Programmes:

To be effective, the expatriate employee must adapt to and not feel isolated from the host country. A well-designed awareness training programme can be extremely beneficial, as it seeks to foster an appreciation of the host-country's culture so that the expatriates can behave accordingly, or develop appropriate coping patterns. The components of cultural awareness programmes vary according to country of assignment, duration, purpose of the transfer, and the provider of such programmes. Five categories of predeparture training have been identified, based on different learning processes, type of job, country of assignment, and the time available: Area studies programmes that include environmental briefing and cultured orientations, cultural assimilators, language training, sensitivity training and field experience.

8.3.3 Developing International Staff:

Foreign assignments have long been recognized as an important mechanism for developing international expertise - for both management and organizational development. Many multinationals are conscious that they need to provide international experience to many levels of managers and not just to a small cadre of PCNs. One technique used to develop larger pools of employees with international experience is through short-term development assignment ranging from a few months to several years.

International job rotation is a well established technique for developing multinational teams and international operators.

8.4 COMPENSATION AND BENEFITS

Worker compensation tends to vary widely around the business world. Employee benefits also vary by country. Cross-cultural differences impact the importance of benefits. Compensation decisions are strategic decisions and play a key role in achieving performance and sustainable competitive advantage for international firms.

1. These policy decisions should be consistent with the overall strategy, structure and business needs of the multinational.
2. The policy should attract and retain the best staff in those areas where the firm has greatest needs and opportunities and where its core competency lies.
3. The policy must facilitate the transfer of international employees in a cost effective manner.
4. The policy should give due consideration to equity and ease of administration.

8.4.1 Approaches to International Compensation:

There are two main approaches in the area of international compensation - the Going Rate approach and the Balance Sheet approach

a) The Going Rate Approach:

The key characteristics of this approach are:

- It is based on local market rates
- It relies on survey comparisons such as Local nationals (HCNs), expatriates of same nationality and expatriates of all nationalities.

» Compensation is based on the selected survey comparison

- The base pay and benefits may be supplemented by additional payments for low-pay countries.

With this approach, the base salary for international transfer is linked to the salary structure in the host country.

b) The Balance Sheet Approach:

The key characteristics of this approach are:

- The basic objective is maintenance of home country' living standard, plus financial inducements.
- Home-country pay and benefits are the foundations of this approach.
- Adjustment to home package to balance additional expenditure in host country.
- Financial incentives added to make the package attractive.
- Most common system in usage by multinational firms.

The approach links the base salary for PCNs and TCNs to the salary structure of the relevant home country.

8.4.2 Taxation:

Taxation probably causes the most concern to HR practitioners and expatriates since it generally evokes emotional responses. Multinationals generally select one of the following approaches to handle international taxation:

- (i) **Tax Equalization:** firms withhold an amount equal to the home country tax obligation of the PCN, and pay all taxes in the host country.
- (ii) **Tax Protection:** the employee pays up to the amount of taxes he or she would pay on compensation in the home country.

8.4.3 Self Check Exercise

- Human resource planning is a part of the overall _____ of the employing organization.
- The process of human resource forecasting involves estimating future human resource needs in terms of _____, _____, and _____.
- Recruitment may be defined as the process by which an organization attracts people to apply for their _____.
- The three basic sources that multinational corporations can tap for overseas positions are home or parent country nationals (PCNs), host country nationals (HCNs), and _____.
- The key characteristic of the Going Rate approach to international compensation is that it is based on _____.

8.5 PERFORMANCE MANAGEMENT

One of the most challenging aspects for a firm operating internationally is managing the performance of its various international facilities. Since organizations exist to achieve goals, the degree of success that individual employees have in reaching their individual goals is important in determining organizational effectiveness. The evaluation of performance of expatriates is very much linked with the performance of subsidiaries, which they are sent to manage.

8.5.1 Multinational Performance Management:

The multinational has specific expectations for each of its foreign affiliates in terms of market performance and contribution to total profits and competitiveness. When evaluating subsidiary performance against these expectations, it is important to recognize various constraints that may affect goal attainment. The major constraints include: non-comparable data, volatility of the international environment, separation by time and distance, variable levels of maturity, headquarters-subsidiary interdependence and market maturity etc.

8.5.2 Criteria Used For Performance Appraisal of International Employees:

Different goals are used as the basis for performance criteria. Hard goals are objective, quantifiable, and can be directly measured such as return on investment, market share and so on. Soft goals tend to be relationship or trait based, such as leadership style or interpersonal skills. Contextual goals attempt to take into consideration factors that result from the situation in which performance occurs.

8.6 REPATRIATION

The expatriation process also includes repatriation: the activity of bringing the expatriate back to the home country. Re-entry into the home country presents new challenges as the repatriate copes with what has been termed re-entry shock, or reverse culture shock. As a consequence, it can be a traumatic experience for some, even more than what was encountered in the foreign location. From the multinational perspective, repatriation is frequently considered as the final stage in the expatriation process, but the multinational's ability to attract future expatriates is affected by the manner in which it handles repatriation.

8.6.1 The Repatriation Process:

It is possible to divide repatriation into four related phases:

1. **Preparation:** involves developing plans for the future and gathering information about the new position.
2. **Physical relocation:** refers to removing personal effects, breaking ties with the colleagues and friends, and travelling to the next posting, usually the home country.
3. **Transition:** means settling into temporary accommodation.
4. **Readjustment:** involves coping with reverse culture shock and career demands.

8.7 SUMMARY

This chapter focused on the various international human resource practices. The four generic processes: selection, performance appraisal, rewards management and human resource development reflect sequential managerial tasks. Performance, in other words, is a function of all the human resource components: selecting people who are able to best perform the job defined by the structure, motivating employees by rewarding them judiciously, training and developing people for future performance and appraising employees in order to justify the rewards. The four approaches to multinational staffing decisions - ethnocentric, polycentric, geocentric and regiocentric - tend to reflect the managerial philosophy towards international operations held by top management at headquarters.

8.8 SHORT ANSWER QUESTIONS

1. Discuss the process of selection in global organizations with reference to the executive nationality selection policies.
2. Discuss the various international human resources practices.

8.9 GLOSSARY

Parent Country Nationals (PCNs): - managers who are citizens of the country where the MNC is headquartered.

Host Country Nationals (HCNs): - local managers who are hired by the MNC.

Third Country Nationals (TCNs): - managers who are citizens of countries other than the one in which the MNC is headquartered or the one in which it is assigned to work by the MNC.

8.10 Answers to Self Check Exercise

- strategic planning
- job description, quantity, location needed, and timing
- job openings
- third country nationals (TCNs)
- local market rates

8.11 SUGGESTED READINGS

- Rao P.L., International Human Resource Management, Excel Books, New Delhi, 1st Edition, 2008.
- Gupta S.C., Textbook of International HRM, Macmillan India Limited, 1st Edition, 2006.

