International HRM in Sustaining International Business Operations

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Abstract
The aim of the paper is to establish the role of HRM in sustaining international business operations and growth. The issues relating to the various approaches to staffing foreign operations; the reasons for using international assignments: position filling, management development and organizational development; the various types of international assignments; short-term, extended and longer-term; and non-standard arrangements: commuter, rotator, contractual and virtual; the role of expatriates and non-expatriates (international business travelers) in supporting international business activities; and the role of the corporate HR function are discussed in the present paper.

Key Words: Managing people, Sustainable, Staffing, International Assignments, Expatriates, Non-Expatriates

Introduction

The purpose of the paper is to expand the role of International Human Research (IHRM) in sustaining international business operations. The various approaches viz. staffing international operations and the allocation of human resources to the firm's various international operations to insure effective strategic outcomes are elucidated. The pivotal role of international assignments is outlined. There are staffing issues that internationalizing firms confront that are either not present in a domestic environment or are complicated by the international context in which these activities take place. The IHRM literature uses four terms to describe MNE approaches to managing and staffing their subsidiaries.1 It was possible to identify among international executives three primary attitudes ethnocentric, polycentric and geocentric towards building a multinational enterprise, based on top management assumptions upon which key product, functional and geographical decisions were made. To demonstrate these three attitudes, organizational design such as decision-making, evaluation and control, information flows and complexity of organization is important.2

Analysis of Ethnocentric to IHRM

Few foreign subsidiaries have any autonomy and strategic decisions are made at headquarters. Key positions in domestic and foreign operations are held by headquarters' personnel.3 Subsidiaries are managed by staff from the home country (PCNs). There are often sound business reasons for pursuing an ethnocentric staffing policy such as:

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

For firms at the early stages of internationalization, an ethnocentric approach can reduce the perceived high risk. When a multinational acquires a firm in another country, it may wish initially to replace local managers with PCNs to ensure that the new subsidiary complies with overall corporate objectives and policies, or because local staff may not have the required level of competence. Thus, an ethnocentric approach to a particular foreign market situation could be perfectly valid for a very experienced multinational. An ethnocentric policy, however, has a number of disadvantages.

Polycentric towards Staffing

The MNE treats each subsidiary as a distinct national entity with some decision-making autonomy. Subsidiaries are usually managed by local nationals (HCNs), who are seldom promoted to positions at headquarters, and PCNs are rarely transferred to foreign subsidiary operations. The main advantages of a polycentric policy, some of which address shortcomings of the ethnocentric policy identified above, are employing HCNs eliminates language barriers, avoids the adjustment problems of expatriate managers and their families and removes the need for expensive cultural awareness training programs. Employment of HCNs allows a multinational company to take a lower profile in sensitive political situations. Employment of HCNs is less expensive, even if a premium is paid to attract high-quality applicants; Gives continuity to the management of foreign subsidiaries; this approach avoids the turnover of key managers that, by its very nature, results from an ethnocentric approach. A polycentric policy, however, has its own disadvantages.

Geocentric towards Global Scenario

Here, the MNE is taking a global approach to its operations, recognizing that each part (subsidiaries and headquarters) makes a unique contribution with its unique competence. It is accompanied by a worldwide integrated business and nationality is ignored in favor of ability. For example, the Chief Executive Officer of the Swedish multinational Electrolux claims that, within this global company, there is not a tradition to hire managing directors from Sweden, or locally, but to find the person best suited for the job. That is, the ‘color of one's passport' does not matter when it comes to rewards, promotion and development. PCNs, HCNs and TCNs can be found in key positions anywhere, including those at senior management level at headquarters and on the board of directors. It enables a multinational firm to develop an international executive team which assists in developing a global perspective and an internal pool of labor for deployment throughout the global organization. It overcomes the ‘federation’ drawback of the polycentric approach. It supports cooperation and resource sharing across units. As with the other staffing approaches, there are disadvantages associated with a geocentric policy such as host government want a high number of their citizens employed and may utilize immigration controls in order to force HCN employment if enough people and adequate skills are unavailable. Many Western countries require companies to provide extensive documentation if they wish to hire a foreign national instead of a local national. Providing this documentation can be time consuming, expensive and, at times, futile. Of course, the same drawback applies to an ethnocentric policy. A related issue, that will be discussed later, is the difficulty of obtaining a work permit for the accompanying spouse or partner. A geocentric policy can be expensive to implement because of increased training and relocation costs. A related factor is the need to have a compensation structure with standardized international base pay, which may be higher than national levels in many countries. Large numbers of PCNs, TCNs, and HCNs need to be
sent abroad in order to build and maintain the international team required to support a geocentric staffing policy. To implement a geocentric staffing policy successfully, therefore, requires a longer lead time and more centralized control of the staffing process. This necessarily reduces the independence of subsidiary management in these issues, and this loss of autonomy may be resisted by the subsidiary.

Managing Subsidiaries in a Region

The geographic strategy and structure of the multinational; it utilizes a wider pool of managers but in a limited way. Staff may move outside their countries but only within the particular geographic region. Regional managers may not be promoted to headquarters positions but enjoy a degree of regional autonomy in decision making. It allows interaction between executives transferred to regional headquarters from subsidiaries in the region and PCNs posted to the regional headquarters; It reflects some sensitivity to local conditions, since local subsidiaries are staffed almost totally by HCNs; It can be a way for a multinational to move gradually from a purely ethnocentric or polycentric to a geocentric. It can produce federalism at a regional rather than a country basis and constrain the organization from taking a global stance. While this approach does improve career prospects at the national level, it only moves the barrier to the regional level. Staff may advance to regional headquarters but seldom to positions at the parent headquarters.

Philosophy toward Staffing

Based on top management attitudes, a multinational can pursue one of several approaches to international staffing. It may even proceed on an ad-hoc basis, rather than systematically selecting one of the four approaches discussed. The firm will opt for a policy of using parent-country-nationals in foreign management positions by default, that is, simply as an automatic extension of domestic policy, rather than deliberately seeking optimum utilization of management skills. This option is really a policy by default; there is no conscious decision or evaluation of appropriate policy. The 'policy' is a result of corporate inertia, inexperience or both. The major disadvantage here is that the firm's responses are reactive rather than proactive, and a consistent human resources strategy that fits its overall business strategy is difficult to achieve. While the various attitudes have been a useful way of demonstrating the various approaches to staffing foreign operations, it should be stressed that the above categories refer to managerial attitudes that reflect the socio-cultural environment in which the internationalizing firm is imbedded, and are based on study of US firms. These attitudes may reflect a general top management attitude, but the nature of international business often forces adaptation upon implementation. That is, a firm may adopt an ethnocentric approach to all its foreign operations, but a particular host government may require the appointment of its own people in the key subsidiary positions, so, for that market, a polycentric approach is mandatory. In such instances, a uniform approach is not achievable. The strategic importance of the foreign market, the maturity of the operation and the degree of cultural distance between the parent and host country influence the way in which the firm approaches a particular staffing decision in some cases an MNE may use a combination of approaches. For example, it may operate its European interests in a regiocentric manner and its Southeast Asian interests in an ethnocentric way until there is greater confidence in operating in that region of the world. The policy on executive nationality tends to reflect organizational needs. Because of these operating realities, it is sometimes difficult to equate precisely managerial attitudes towards international operations with the structural forms. The environmental contingencies facing the particular internationalizing firm influence its
strategic position, managerial mindset, organizational structure and staffing approaches. The above discussion demonstrates the options for staffing key positions in foreign operations. We will now look at the HR consequences of these approaches and the broader implications in terms of the reasons for using international assignments, types of international assignments, the role of expatriates and non-expatriates.

Integration of Strategy, Research and Practice

Given the difficulties surrounding international assignments, it is reasonable to question why multinationals persist in using expatriates. Certainly, there are ebbs and flows associated with the number of staff moved internationally. Frequently, predictions are made that expatriates will, become like dinosaurs as firms implement localization strategies, replacing expatriates with containing employment costs. However, firms expect staff movements to increase. The international management and IHRM literature has consistently identified three key reasons for transferring staff through the use of various forms of international assignments. The organization has a need and depending on the type of position and the level involved will either employ someone locally or transfer a suitable candidate. The most common reason was to fill a skills gap, followed by the launch of a new endeavor, and technology transfer. Second is management development. Staff can be moved into other parts of the organization for training and development purposes, and to assist in the development of common corporate values. For this reason, we see headquarters staff transferred to subsidiary operations, or subsidiary staff transferring into the parent operations or to other subsidiary operations. Assignments maybe for varying lengths of time and may involve project work in addition to a trainee position.

The perceived link between international experience and career development can be a motivation for staff to agree to such transfers. Third is Organization development. Here strategic objectives of the operation come into play, the need for control; the transfer of knowledge, competence, procedures and practices into various locations; and to exploit global market opportunities. Employees are transferred internationally for varying lengths of time depending on the purpose of the transfer and the nature of the task to be performed. Companies tend to classify types according to the length or duration of the assignment. Virtual assignments tend to be used for regional positions, such as European Marketing Manager, where the person is mainly coordinating a number of countries’ marketing activities but is based at a regional center. The 2000 PricewaterhouseCoopers study found that virtual assignments were more common in Europe with no companies indicating the use of such arrangements in the Asia-Pacific region. Geographical distance in terms of flight hours and time zones were the main difficulties encountered in operating virtually between operations in Europe and Asia-Pacific.

Expatriate as Direct Control, Socialization, Network Builders and Boundary Spanners

The reasons for using expatriates are not mutually exclusive. They do, however, underpin expectations about the roles staff play as a consequence of being transferred from one location to another country. The use of staff transfers can be regarded as a bureaucratic control mechanism, where the primary role is that of ensuring compliance through direct supervision. To a certain extent, using expatriates for control ‘reflects an ethnocentric predisposition, but this can be important in ensuring subsidiary compliance, enabling strategic objectives for local operations to be achieved. Expatriate’s role as an agent of socialization is related to the use of corporate culture as an informal control mechanism.

There is an implicit expectation that expatriates assist in the transfer of shared values.
and beliefs. Expatriates as international assignments are viewed as a way of fostering interpersonal linkages that can be used for informal control and communication purposes. Naturally when employees move between various organizational units, their network of personal relationships changes. How these employees are utilized is person dependent. People tend to nurture and protect their networks, to be very selective about the way they use their connections and to evaluate the potential damage to key individuals in their networks if the connection was to be used inappropriately. Although short-term assignments may not allow the expatriate to develop as wide a range of contacts in one location as a traditional assignment allows, over time they can increase the number and variety of networks, giving the opportunity for the transfer of ideas and competence. Duration of the assignment, therefore, will have an impact on the person’s ability to develop networks.

Boundary spanning refers to activities, such as gathering information, that bridge internal and external organizational contexts. Expatriates are considered boundary spanners because they can collect host-country information, act as representatives of their firms in the host country and can influence agents. Overall, international assignments are seen as an effective way of accomplishing multiple objectives. In fact, one could argue that there are elements of competence and knowledge transfer in all the roles we have identified. However, evidence as to the effectiveness of expatriates in conducting their numerous roles is sparse. Factors that may affect effectiveness include: The creation of an environment of openness and support for cross-fertilization of ideas and implementation of 'best practice'; the double-headed arrows indicate the need for knowledge and information to travel dynamically, that is, between the expatriate and the host location, and back to the expatriate’s home location, if the multinational is to benefit from international assignments as a mechanism for competence and knowledge transfer. Despite the recognition of the importance of personal networks in knowledge and information transfer, staffing decisions are often made without regard to their effect on network relationships; There is a link between the duration of the assignment and the effective transfer of knowledge and competences. Some knowledge and competence may be transferred quickly whereas other skills and knowledge may take longer; Naturally, much of what is transferred depends on the expatriate concerned in terms of ability to teach others and motivation to act as an agent of knowledge and competence transfer.

Non-Expatriates: International Business Travelers

What has tended to be overlooked is that a considerable amount of international business involves what can be called non-expatriates people who travel internationally yet are not considered expatriates, as they do not relocate to another country. That is non-expatriates are international business travelers persons for whom a large proportion of their role involves constant international visits to foreign markets, subsidiary units, international projects and the like. Where this group is referred to, they are popularly termed 'road warriors', 'globetrotters' or 'frequent fliers'. International travel is an essential component of the work of non-expatriates such as international sales staff whose job is almost totally comprised of international travel and managers whose job entails numerous, periodic visits to international operations. International sales representatives attend trade fairs, visit foreign agents and distributors, demonstrate new products to potential clients and negotiate; sales contracts. Various staff will visit foreign locations to deal with host-country government officials, alliance partners, subcontracting firms and foreign suppliers. In spite of e-mails and videoconferencing, international business travel is increasing. People still prefer to conduct certain business activities, hold meetings and interact face-to-face. However, international business travel can make heavy demands on staff. There is a high level of stress involved for those whose job responsibilities contain a large proportion of international business travel.
Home and family issues, Work arrangements, Travel logistics, Health concerns, Host culture issues. The negatives associated with international business travel. However, there are positives. People involved in this side of international business will relate the excitement and thrills of conducting business deals in foreign locations, the life style (top hotels, business class travel, duty-free shopping) and its general exotic nature as the reasons why they enjoy international business travel, despite its very real negatives. Non-expatriate business travelers also perform many of the roles of expatriates in terms of being agents for socialization, network builders, boundary spanners and language nodes. From the limited evidence available, however, it would seem that the management of staff using these forms of arrangements falls to the functional or line managers involved rather than the HR department as such.

**Corporate HR Function in Multinational**

Having considered the approaches to staffing and examined international assignments and the role of expatriates and non-expatriates, we now turn our attention to the role played by the corporate HR function in managing people in a multinational context. Much of the IHRM literature is focused on whom to place in control of foreign operations and activities. However, like other functional areas, HR professionals in multinationals face strategic choices. First, can we manage our people like a global product? The global internal labor market does imply some belief that it is possible to deploy human resources in much the same way as other resources. However, comparative HRM and cross-cultural management literature suggests that standardizing work practices and HRM activities is not the same as product standardization. Second, what HR matters require central control and what can be delegated to subsidiary HR managers? The answer partly depends on organizational and administrative imperatives and the economic and political imperatives of the host location. For example, the desire for control and coordination may stress a geocentric approach to staffing that requires standardized policies to encourage equal treatment to all staff on international assignments (that is, an administrative imperative).

Legal constraints, cost considerations and host-government directives may require compromises in terms of staffing (economic and political imperatives). A related aspect in terms of centralization and decentralization is the nature of the activities performed by the HR function. Multinationals may also centralize training and development programs. For example, Motorola, a US multinational, has its own 'university'; Lufthansa, the German airline, and the Swedish furniture retailer, have own 'business schools'. Hiring of HCNs tends to be devolved to the local level given the need for adherence to local hiring practices. Another driver is the level of sophistication within the firm regarding its international business operations generally. The more mature the firm, the more likely it has centralized those HR activities which it considers strategic. The position of the corporate HR function is also dependent on its profile within the top executive team. For many firms, despite the impact that international growth has on a firm's various roles of corporate HR activities, the precise nature and extent of that impact on corporate performance are not well understood by many senior managers.

**References**

