INTERNATIONAL HUMAN RESOURCE MANAGEMENT: AN OVERVIEW OF ITS EFFECT ON MANAGERS IN GLOBAL ORGANISATIONS

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Abstract

By managing international human resources (IHRM) correctly, it can enable a business to compete more successfully in the world market place. The last two decades have seen a gradual transition in style and substance from personnel management to human resource management, and recently to international human resource management. Human resource managers could consult local representatives of an overseas business regarding: local culture, employment aspects, safety, customs and traditions in order to operate in harmony with a local company's procedures; different ethical and business standards can also lead to negative experiences. Because of various changes in socio-economic and legal-political requirements that differ from country to country designing remuneration packages could be different from 'domestic-based' human resource management. Doing business globally is a critical and important step because of the possible incompatibility of perceptions or standards in the company's human resource's policies and practices. It is not easy to manage pay packages of staff in a large multi-national company who are all earning at different rates; employees are more satisfied if they feel they are being paid what they are worth, especially those who are seconded to work overseas for a specific period.

Key words: Recruitment, Remuneration, International Human Resource Management

1. Introduction

It is vital for human resource managers in multinational corporations and international joint ventures to have a perfect understanding of international human resource management (IHRM) because it is becoming an important concept for human resource (HR) practitioners to be aware of and to practice. Domestic based HR managers who import staff from overseas should also have a very good knowledge of IHRM. In order to keep up with the pace, HR

managers will have to have a global vision of how to manage their people effectively both at home and abroad. Managing international HR enables a business to compete more successfully in the world market place, and is an excellent developmental tool for its employees. Yet, as Du Plessis and Beaver (2008) and Gomez-Mejia, Balkin and Cardy (2004) point out, examples abound of failures in both expatriation (the process of sending a home country national to work in a foreign country) and repatriation (the process of acclimatising an expatriate back into his or her home organisation and country). This article reports on the growth of IRHM, and implications faced by HR managers, and offers suggestions for an effective role for managers in implementing IHRM. Conclusions form the last part of this article.

2. Background of International Human Resource Management

Shen (2005: 83) explains IHRM in terms of a system: "a set of distinct activities, functions and processes that are directed at attracting, developing and maintaining the human resources of a multi-national corporation." The domestic based term of HRM covers "all the concepts, strategies, policies and practices which organisations use to manage and develop the people who work for them" (Rudman, 2005: 3). The only major difference between IHRM and HRM is the fact that one relates to multinational corporations and the other to domestic based firms. The last two decades have seen a gradual transition in style and substance from personnel management (PM) to HRM and recently to IHRM. More than a decade ago Lundy (1994: 693) believed that the PM's role lacked strategic relevance because it was mainly an administrative-type role, whereas the modern concept of HRM is much more strategic in scope. He stated that HRM came about due to a "change in the functions, boundaries, substance and objectives" of the original PM function. Just as effective management of HR plays a major role in the success of a domestic business, Scullion & Starkey (2000) suggest that effective management of HR in a multinational corporation is a major determinant of success or failure in international business.

2.1 Globalisation and Adjustment

The removal of geographical borders when conducting business, and the subsequent erosion of cultural and distance barriers, has stimulated international business, and caused HR practitioners to develop new concepts and skills to manage people outside their traditional

boundaries. According to Härtel, Fujimoto, Strybosch and Fitzpatrick (2007) globalisation is widely regarded as a prime catalyst for IHRM. Fifteen years ago Yip (1995) explained already that there are four major drivers of globalisation:

- The global market with its consumer needs, wants and expectations;
- Production and labour costs in different countries;
- Government rules and regulations regarding taxes, tariffs, quality control and import/export restrictions;
- Competitors' actions.

All these require a particular understanding and response from HR managers, which will enable them to see how different IHRM is from domestic-based HRM in their home country.

More than a decade ago Kamoche (1997: 213) said the literature reflects a strong socio-psychological and welfare concern which echoes the notion of 'adjustment' Thus when a company's business representative is going overseas to explore a new region it is a challenge for that person to adjust to a new lifestyle, language, conditions of employment or different ways of operating HR activities. Failure to adjust is often unacceptably high. Gomez-Mejia et al (2004) report comparatively high failure rates (as evidenced by a premature return) among US expatriates of 20-40 %, which is roughly three to four times higher than those experienced by European and Asian companies. HR managers need to utilise human capital in order to conduct the business more efficiently and effectively when a business intends to expand to an overseas market. HR managers could consult local representatives of an overseas business regarding: local culture, employment aspects, safety, customs and traditions in order to operate in harmony with a local company's procedures. For example, women may have a different status in business in other countries compared to the home country (New Zealand, in this case). In Dubai, as in most Islamic countries, foreign women are not allowed to be employed. Therefore, this will affect HR's international recruitment strategy, not only for the employees, but also for wives of its expatriates. Different ethical and business standards can also lead to negative experiences.

2.2 Adapt and accept?

Employees might not be willing to adapt to or accept local rituals or practices in the host country. There is a difference between condoning corruption, and participating in harmless

rituals. Since HRM has a responsibility to promote its employees' development and to encourage "learning and knowledge management…on which we can realise a whole range of strategic options" (Paauwe, 2004, cited in Paauwe & Boselie, 2005: 79), the business becomes a learning organisation, as well as an exchange of business knowledge and enhancement of new skills (Du Plessis and Frederick, 2008). According to Kamoche (1997: 217) the reasons for failure range from the complexity of the business climate to the failure of spouse or family to adapt to and accept an unfamiliar environment, including cultural incompatibility. In some countries employees are slow to re-adapt to a new way of life or new way of running business. Conversely, repatriation is also a critical phase that is often neglected by HR, and the returning employee may experience a 'reverse culture shock'.

2.3 Complexities of IHRM in practice

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. Dowling and Welch (2006) argue that the complexity of IHRM can be attributed to six factors:

- More HR activities – to operate internationally, HR must engage in activities not necessary in a domestic environment
- The need for a broader perspective – international HR managers face the problems for more than one national group of employees
- More involvement in employees' personal lives – housing arrangements, health care, compensation packages etc internationally
- Changes in emphasis as the workforce mix of expatriates and locals varies – foreign operations mature and therefore HR activities change
- Risk exposure – human and financial consequences of failure in the international arena are more severe than in domestic business
- Broader external influences – the type of government, the state of the economy and the accepted policies and procedures of the host countries

2.4 International remuneration packages

It is not easy to compile remuneration packages for expatriates. IHRM's practice in designing remuneration packages could be different from 'domestic-based' HRM because of various changes in socio-economic and legal-political requirements from country to country. Chinese business policies have been cited by Warner (2004: 632) as an example of this: "The low-wage and low-consumption model adopted by the state under the 'iron rice bowl' policy for decades restricted the growth of the economy." It follows that standardised pay could not be applied because it could contradict local practices. It is HR's role in the home company to establish an equitable pay rate for overseas service prior to sending employees. This would potentially reduce the frustration of expatriate employees, because although they might have been paid appropriately in their home market, in overseas terms it could be less when converting to domestic dollar values. HR managers can reduce the risks of failure by preparing thoroughly in advance before going global.

The work of IHRM has aspects that are legally and culturally determined by the country they are entering, but ultimately HRM is still responsible for the strategy and implementation plan. For instance, in Hong Kong, after a company had a high turnover of staff of 24%, HR managers decided to offer a 'use it or lose it' policy of $1000 a year towards dental work. As a result, the company's turnover dropped to only 4% within a short time (Medland, 2004). This specific tactic may not work as a retention tool in other countries, but it does demonstrate that HR managers need to be aware of what their employees want in different countries, and why pay and conditions of work should not be standardised in multi-national companies.

2.5 International contracts

The Chinese prefer to build a relationship with their manager after their contract is signed, after the handshake and after they get to know them (Bland, 2006). Westerners may tend to think of a contract in purely legal, clinical terms, and that once it is signed all parties will simply abide by its terms. But not all countries think like Westerners do. Little details such as this are vital for IHR managers to be aware of. Until IHRM develops a general theory of cultures, Bigelow (1994), states that management should think in terms of receptivity, creativity and adaptability – not simply learning before the multi-national company enters a country what differences exist

between cultures. There is more to IHRM than that. Treven (2006: 123) encapsulates the argument by asserting: "As global competition increases, it is increasingly important for successful companies to have a group of managers with a global perspective."

3. Implications for the International Human Resource Manager

3.1 Culture differences

Du Plessis (2007:1-10) is of the opinion that cultural differences and cultural diverse workforces are a reality in the 21st century organisation. For Hofstede, national culture is the 'collective mental programming' which distinguishes one nation from another, a "construct which is not directly observable, but is inferable from verbal statements and other behaviours" (Black, 1999: 594). The issue is how much influence cultural differences would bring to the workplace. Different approaches towards collectivism and individualistic cultures, according to Hofstede's classic study, will create a degree of multiple negotiations for human resource managers to consider (Gomez-Mejia, Balkin and Cardy, 2004). Some cultures are collectivist, where working together as a team is valued, whereas others are more individualist. This could create multiple pay schemes for businesses in terms of percentage rates. "National differences in collectivism and orientation towards providing for and protecting employees suggests that Asian merit pay allocators in both Indonesia and Singapore may give larger merit raises than merit pay allocators in the US" (Gully *et al*, 2003: 1371). Culture influences and shapes the business structure and HRM practices when the business is going international. Doing business overseas is a critical and important step because of the possible incompatibility of perceptions or standards in the company's HR's policies and practices (Hofstede, 1993, table 16.3, cited in Storey, 2001).

According to Smith (1992), the largest multinational corporations in the world now have more employees outside their home country base than within it. This means that HR managers must be scrupulously correct in their approach to staffing and ensure they consider everyone from different cultures and backgrounds when working with them. This may not seem like a simple task, but if the expatriate staff work with the IHR manager to help them understand each other it could facilitate this exercise. In both cases of permanent / long term and short term overseas

secondment, HR professionals could be called upon to help the employees better understand other cultures and increase their cultural competence (Short & Callahan, 2005). Again, this will help make the overseas assignment go more smoothly for the employee. The authors suggest that the system used for compensation and pay must be externally linked to the organisation's strategic goals, and consequently to the reason for assignment overseas. The system must be integrated with all of the expatriation policies such as selection, training and professional development. Most multi-national companies are imprinted with their home country's culture and traditions, especially in the area of HRM.

3.2 International Human Resource Management Systems

Following on from this is the issue of integrating HRM systems, policies and procedures from different international and even national contexts (Aguilera, 2004). It can be difficult enough to manage various HRM practices in individual companies let alone on a multi-national basis, as many problems could potentially stem from this if integration is not done sufficiently. While globalisation imposes a considerable movement in the direction of standardisation of certain elements of management systems in multinational corporations, including some elements of HRM, the influence of local culture, institutional arrangements and labour market practices continue to add pressure for divergence (McGraw & Harley, 2003). How to approach this process can be problematical. While there are different ways of doing this, the HR manager first needs to look at the existing culture, rules and laws of the country concerned. Even if the parent company has highly developed HR practices at home, it is wrong to assume that transferring those policies overseas can be free of resource constraints, imposed by specific conditions in the host country (Yang, 1998, cited in Farley, Hoenig & Yang, 2004: 700).

Shen (2005) suggests that a multi-national company's IHRM policies and practices should be a mix of the 'home' HRM system plus host country factors and company specific factors. This would mean that in each 'host' country the policies could be slightly different. This opinion differs from that of Florkowski & Raghu (1993), who believe multi-national companies are generally expected to change their HRM policies and programmes to achieve compliance through the whole organisation. If implemented properly, this should help ensure a minimum of contradictions within the multi-national company. However, setting this up to make sure as many
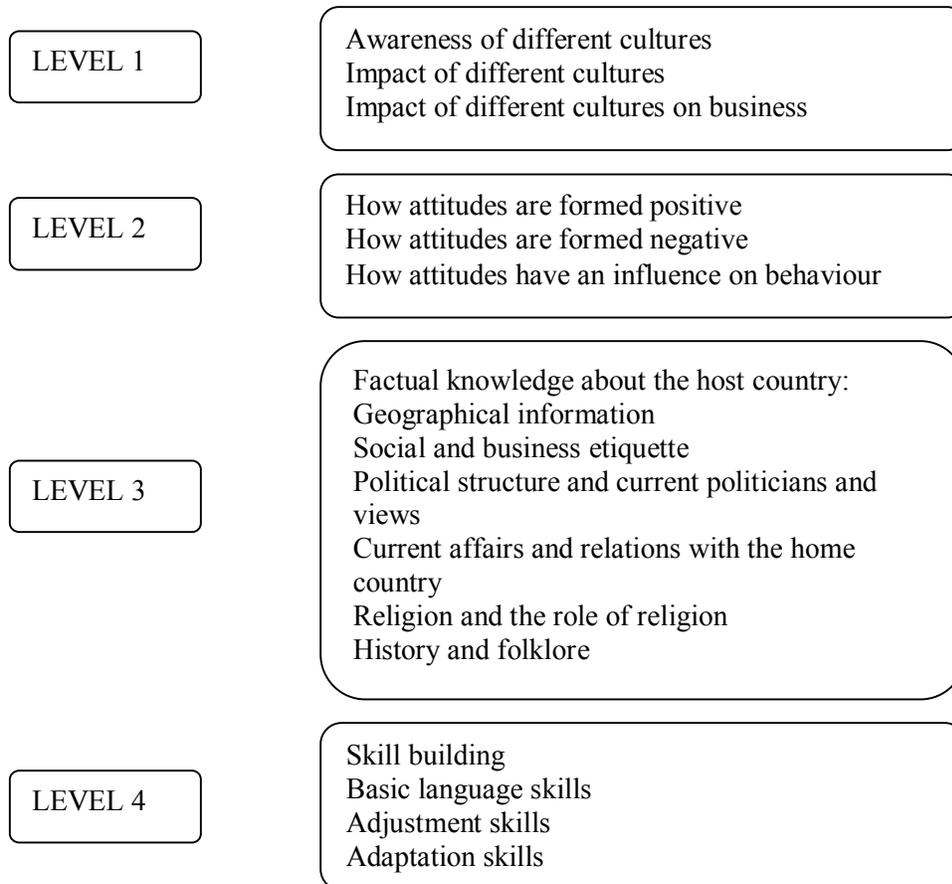
cultures are accommodated as possible would be very costly in terms of time and money. Carr (2006) suggests that IHR managers should be willing to make compromises with staff. Ultimately, business processes for multi-national companies cannot be completely standardised, because of the natural differences in operations in each country. But, as a rule of thumb, the IHR manager should conclude that business processes will need to be 80% standardised (Carr, 2006).

3.3 International selection

Although appropriate systems may be in place, selecting the expatriate is crucial in preventing that the wrong people are sent out. There should be sound reasons for choosing a particular person for the assignment, and not just haphazardly filling a vacancy or offering 'tokens' (Osland, 2002), and valid and appropriate selection processes' should be followed. HRM should identify all the desired skills and search for the best candidate, even though it may be impossible to find the ideal person who is both able and willing to go overseas. In the selection of women expatriates, Caliguiri and Cascio (2002) advocate that this should be based on demonstrated technical competence and desired personality characteristics, such as openness and flexibility.

3.4 International training

In a 2002 study it was found that expatriates above all wanted their HR departments to eliminate unnecessary uncertainty and ambiguity (Gomez-Mejia, Balkin and Cardy, 2004). Training before embarking on the overseas assignment is one of the most effective ways to accomplish this. Pre-departure training should include aspects of local culture, values and attitudes (towards expatriates as well). In-country training could be supplemented by local mentoring, and there could be additional cross-cultural training for spouses and other family members. Conversely, there could also be orientation and training for host nationals before the expatriate arrives (Caliguiri and Cascio, 2002). Training the expatriate for repatriation is another valuable HR exercise which is often neglected, because it is considered obvious that the returning employee will assimilate back into their own culture and society. Figure 1, below, explains the different levels of training as the author anticipate it.

Figure 1: Different training levels for employees for international assignments

LEVEL 1	Awareness of different cultures Impact of different cultures Impact of different cultures on business
LEVEL 2	How attitudes are formed positive How attitudes are formed negative How attitudes have an influence on behaviour
LEVEL 3	Factual knowledge about the host country: Geographical information Social and business etiquette Political structure and current politicians and views Current affairs and relations with the home country Religion and the role of religion History and folklore
LEVEL 4	Skill building Basic language skills Adjustment skills Adaptation skills

Source: Developed by the author

3.5 Retention of Employees

Employees are 'human souls' that management is dealing with; they are people who bear knowledge and skills that cannot be taken away. In order to retain these people, it is important to encourage them to constantly upgrade their skills and keep themselves current, while sending them overseas or on special seminars. Multi-national companies "increasingly value international experience in their human capital" (Carpenter, Sanders & Gregersen, 2001, cited in Toh & DeNisi, 2003: 607). An employee's knowledge would be very valuable, especially if it was received from overseas, because he or she would acquire skills, expertise which might not be easy

to obtain in a home country. For example, if a medical products company hired an expatriate employee, who conducted his or her own research or developed new medical procedures while overseas, this would add considerable value to the business, because of this special expertise. This would also have a flow-on effect on remuneration for the employee.

3.6 Managing Employees Internationally

It is important to receive up-to-date feedback and to measure employees' performance appropriately in order to manage them in overseas situations. This would reduce the risk of future costly mistakes, such as paying for failed employees' recruiting and training costs. "The main requirement in achieving the measurement of training and development payback is for human resource professionals to ensure that line managers view training and development as a means of improving their operation and helping them to achieve their objectives and solve problems" (Kelly, 1993: 3). The standards of evaluation and measurement would vary, compared to 'domestic-based' HRM. When companies go global and set up their business in overseas markets, it is HR's responsibility to manage their human capital.

3.7 International Remuneration Packages

Dowling and Welch (2006) are of the opinion that when an organisation develops international compensation policies, it seeks to satisfy several objectives:

- The policy should be consistent with the overall strategy and structure of the business needs of the multi-national company
- The policy must work to attract and retain staff where the greatest needs and opportunities are such as incentive for foreign service, tax equalisation and reimbursements for costs
- The policy should facilitate the transfer of international employees in the most cost-effective manner for the organisation
- The policy must give due consideration to equity and ease of administration

Base salary requires, in domestic context, denotes the amount of cash compensation serving as benchmark for other compensation elements (bonuses and benefits). For expatriates, it is the primary component of a package of allowances directly related to base salary (cost-of-living

allowances, housing allowance) and also the basis for in-service benefits and pension contributions. It may be paid in home or local country currency. The base salary is the foundation block for international compensation whether the employee is a parent country national or a third country national. Major differences can occur in the employee's package depending on whether the base salary is linked to the home country of the parent country national or the third country national.

Employees in multi-national companies come from very different backgrounds and experiences therefore it is harder to manage them than if they were all in the same country or even city. If pay and conditions of employment are standardised around the world in multi-national companies, it is highly likely that problems would arise amongst staff members doing similar work in different countries. Giammalvo (2005: 20) states, "Regardless of how well intentioned management may be, unless there is a formula in place that is easily understood, readily verified and perceived to be fair and equitable, it is bound to create conflict and hard feeling among team members." This suggests that HR managers need to ensure there are clearly stated terms and conditions of differences in remuneration amongst similar positions in different countries. The employees must be made aware of reasons for their salary structure, so that there is less likelihood of problems occurring in the future amongst staff members. However, Schmitt & Sadowski (2003) argue against this theory, saying that, amongst other problems, if the IHR manager is not standardising pay, then the costs of differentiation could be higher.

4. Conclusions

There are many aspects of managing HR internationally that differ from domestic HRM. IHRM is much more complex than domestic based HRM because there are wider issues to be aware of. The IHR manager needs to consider many aspects when working in a multi-national situation, including the culture of the people, laws of the country, expectations of pay and conditions of work from local and expatriate staff and integrating practices and procedures. In joint ventures between foreign countries or in multi-national companies, social comparison across different groups of national employees is going to be likely, especially when it comes to pay and remuneration. This is because locals and expatriates work side by side, but are usually under different terms of employment. It was also argued that the Chinese would not think of

expatriates' income as unfairly inflated compared to their own. The 'one size fits all' approach no longer satisfies employees, as they have different expectations in the employment relationship.

The manner in which HR manage the global staff will have a big impact on how successful the company will be. What may be considered minute details to some can have a considerable bearing on these employees and are likely to be different for each country. Pay and conditions of employment are too important for employees to standardise throughout multi-national companies. Although it is not easy to manage pay packages of staff in a large multi-national company who are all earning at different rates, employees are likely to be more satisfied if they feel they are being paid what they are worth, especially those who are seconded to work overseas for a time. As the HR of a company plays such a big part in the company's international success, HR managers should always keep this in the forefront of their minds.

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