

A Conceptual Framework of International Human Resource Management Practices

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Abstract

Business Organizations have been increasingly expanding to global markets because of the virtue of globalization. The development of the research which focuses on management of expatriates for foreign assignments is due to the international movement of human resources. In the literature various theories and models explaining International Human Resource Management practices have been adequately discussed. These theories and models provide a framework that leads to consistent and more powerful findings. This study proposes a theoretical framework on International Human Resource Management practices based on the basis of the comments of previous researchers.

Keywords

Expatriates, Selection, Compensation, Training

I. Introduction

Globalization and the benefits of economies of scale has resulted in the greater degree on internationalization of domestic firms. Expansion to international market and successful operations results due to the synchronization of all the functional departments in the organization. In this aspect Human Resource Management also plays a significant role in the international business of the organization and hence its activities is famously known as International Human Resource Management. Various IHRM practices like international staffing, training, compensation, cross cultural issues, performance management etc., becomes strategically important to meet the goals of the organization. Several researchers in the past have contributed significantly to the literature on IHRM practices. This paper is a conceptual study on the important contributions of past researchers relating to the IHRM practices particularly with respect to staffing, training, compensation management, cross cultural issues and performance management.

II. Statement of the Problem

According to the findings of the study (Vogel et al,2008) approximate cost of expatriate failure is about US\$250000 – US \$ 1 Million approximately. The failure of expatriates has a lot of repercussions on the morale of the expatriate, the dented relationship with the host country. The effective way to prevent expatriate failure is to effectively plan the IHRM practices. This paper intends to study the IHRM practices with respect to staffing, training, compensation, cross cultural issues, and performance management.

III. Significance of the Study

In the past several researchers have contributed immensely towards IHRM practices. The study proposes a framework that leads to consistent and more powerful findings based on the comments of previous researchers. The study contributes in several manner towards IHRM practice literature.

IV. Purpose of the Study

Consistent with the overall strategic human resource plan, sending expatriates abroad to develop global competencies is also consistent

for many organizations. The purpose of this research focused on examining the relationship between various variables that may influence IHRM practices. Expatriates find these programs as a developmental experience and it was found that 80 percent reported being able to communicate more effectively with people from culturally diverse backgrounds 90 percent reported an increase in their global perspectives, and 80 percent were better able to comprehend business trends (Liu & Lee, 2008).

V. Expatriat Staffing Practices

Companies operating in the international business environment are faced with a great variety of cultural and institutional variations which make managing in a multinational context particularly complex (Doz & Prahalad, 1986). Managers of multinational corporations (MNCs) are increasingly realizing the importance of HR practices in ensuring the profitability and viability of their business operations, and global staffing is increasingly seen as a primary HR practice used by MNCs to control and coordinate their spatially dispersed global operations (Dowling & Welch, 2004). Indeed global staffing has emerged as a critical issue in international management for several reasons.

First, there is growing recognition that the success of global business depends most critically on recruiting the desired quality of senior management in the MNC (Schuler, 2000). Second, staffing issues are different and more complex in the international environment (Torbiorn, 1997). Third, the performance of expatriates continues to be problematic and the evidence suggests that the consequences of poor performance in international assignments are often costly in human and financial terms (Dowling & Welch, 2004). Fourth, shortages of international managers are a growing problem for international firms and frequently constrain the implementation of global strategies (Scullion, 1994). Fifth, global staffing issues are becoming increasingly important in a far wider range of organizations partly owing to the rapid growth of SME internationalization (Anderson & Boocock, 2002). Finally, recent research shows the growing importance of staffing strategies such as inpatriation which reflect the growing need for MNCs to develop a multicultural international workforce (Harvey et al., 1999b). The significance of staffing as a key HR concern in MNCs is not likely to diminish in the future owing to the rapid growth of emerging markets such as China and India (cf. UNCTAD, 2003, 2004) which is leading both to an increasing need for managers with the distinctive competences and the desire to manage in these culturally and economically distant countries and to a greater competition between MNCs for managers with the context-specific knowledge of how to do business successfully in these markets (Garten, 1997; Björkman & Xiucheng, 2002). In evaluating the evolution of the literature on global staffing we can point to a number of key trends. Firstly, much of the early work on international staffing was drawn from research focused on North American MNCs and the main topic of attention was the explanation of expatriate failure, a concept which has recently received an amount of critical attention (Harzing, 1995).

VI. Motives for Using Expatriate Employees

We begin our discussion by considering some of the reasons why MNCs use expatriate assignees to staff their foreign operations. This is significant as empirical research has shown that the reasons why expatriates are sent on assignment may have an impact on job performances, adjustment and roles performed (Shay & Baack, 2004) although it is important to note that many assignments generally have more than one rationale (Sparrow et al., 2004) while there may be few 'pure' cases whereby assignments have a singular purpose. We first consider a seminal work in the field of international staffing, the Edström and Galbraith (1977) study. Edström and Galbraith (1977) identified three key motives for utilizing international transfers. Firstly, when qualified local country nationals were not available, particularly in developing countries, expatriates were used to fill positions. Secondly, organizations use international assignments (IAs) as a means of developing individual employees. This type of assignment is aimed at developing the global competence of the individual manager and indeed organizations utilizing this type of assignee are likely to do so regardless of the competence of employees in the host environment. Finally, IAs could be utilized as a means of organizational development. In this instance IAs are used to transfer knowledge between subsidiaries and to modify and sustain organizational structure and decision process. The significance of Edström and Galbraith's study is reflected in the fact that, since its publication, it has formed the basis of almost all research on the functions of international assignments.

Having examined the reasons why MNCs use expatriates in their foreign subsidiaries, we will now take a more strategic focus and look at the factors which influence the composition of senior staff in multinational subsidiaries.

We take Perlmutter's (1969) seminal paper as our point of departure in this regard. Perlmutter introduced a classification of multinationals which differentiated between firms on the basis of their attitude toward the geographic sourcing of their management teams. Initially he identified three approaches to the staffing of MNCs: ethnocentric, where all key positions in subsidiary operations are filled by parent-country nationals (PCNs) or citizens of the country where the HQ is located; polycentric, where foreign subsidiaries are primarily staffed by host-country nationals (HCNs) or managers from the subsidiary location; and geocentric, which involves filling positions at both HQ and subsidiary level with the 'best person for the job' regardless of nationality; in later work he introduced a fourth approach, the regiocentric approach, where organizations are conceptualized on a regional basis and managers are generally selected on the basis of 'the best in the region' with international transfers generally being restricted to regions (Heenan & Perlmutter, 1979).

VII. Selection of Expatriates

Dowling et al. (1999) state that, "the challenge for those responsible for selecting staff for international assignments is to determine appropriate selection criteria" (p. 84).

The selection of an individual is a critical function in organizations because this requires setting of criteria on the basis of which individuals can be screened and selected. After the need of sending individual to the host country is determined the next phase is to select the expatriate. There are numerous factors on the basis of which the development and selection of managers for overseas assignment can be relied on. Some of these include Managerial competence, Technical competence, Cross-cultural competence/adaptability, Personal stability, Previous international

experience, Family stability, Language skills, Knowledge of foreign country, Marital status (Haslherge & Stroh, 1992). Apart from these, Intercultural Communication skills and Intercultural sensitivity also can be effective criteria for selecting an expatriate. Intercultural communication skills have been identified in the majority of studies focusing on capabilities for international tasks where as intercultural sensitivity is the emotional capability to be sensitive toward individuals from a different national culture (Graf, 2004). Intercultural competence measures did predicted ratings of intercultural decision quality in an intercultural organizational scenario. (Graf & Harland, 2005)

Harvey and Novicevic (2001) performed a quite thorough literature review on expatriate selection and found that technical or functional expertise was the primary selection criterion in the initial stage of expatriate employee selection. Scholars have described and prescribed expatriate selection criteria based on the assumption that certain factors are predictors of successful expatriation (Black, Gregersen, & Mendenhall, 1992). Mendenhall and Oddou (1985) identified five personal attributes related to successful overseas adjustment, namely job factors, relational dimensions, motivational state, family situation and language skills.

VIII. Appendix A: Five Categories of expatriate selection criteria

A. Job Factors (Job Behavioral Tendency)

1. Technical competency/Knowledge (e.g., Aycan, 2000; Forster & Johnson, 1996)
2. Self-preservation – ability to control, enjoy and maintain mental health (e.g., Mendenhall & Oddou, 1985)
3. Managerial and Decision making competency (e.g., Marquardt & Engel, 1993)
4. Perceptual skills (Strategic awareness, sensitivity to environmental constraints, world events and their impact on the long-range perspectives of the business (e.g., Feildman & Tompson, 1993; Torbion, 1982),
5. Past performance (e.g., Suutari & Brewer, 2001)
6. Earlier international experience (e.g., Aycan, 2000; Suutari & Brewster, 2001)

B. Relational Dimensions

1. Interpersonal skills (e.g., Caliguri, 2000a,b),
2. Good communication skills (e.g., Abe & Wiseman, 1983)
3. Social knowledge, internal/external business networking (e.g., Abe & Wiseman, 1983; Harvey & Novicevic, 2001; Suutari & Brewster, 2001),
4. Concern for host country workers and desire to fit in (e.g., Mendenhall & Oddou, 1985)

C. Motivation State (Include Personality and Personal Traits)

1. Adaptability (e.g., Arthur & Bennett, 1995)
2. Cultural empathy and cultural toughness (e.g., Arthur & Bennett, 1995; Mendenhall & Oddou, 1985)
3. Extroversion, agreeableness, conscientiousness, emotional stability, and openness – the big five (e.g., Caliguri, 2000b; Torbion, 1982)
4. Flexibility (e.g., Arthur & Bennett, 1995; Mendenhall & Oddou, 1985)
5. Intrinsic Motivation (e.g., Suutari & Brewster, 2001)
6. Potential (e.g., Torbion, 1982)

7. Self-efficacy (e.g., Torbion, 1982)
 8. Tolerance for ambiguity (e.g., Suutari & Brewster, 2001)
 Family situation: family support (e.g., Toribon; Tung, 1986)
 Language skills: (e.g., Mendenhall & Oddou, 1985; Suutari & Brewster, 2001).

IX. Training of Expatriates

After an individual is selected, the next phase is to train the individual for the overseas assignment. The training can enhance the chance of expatriate success. Even only the provision of training can influence the expatriates. The expatriates themselves tend to be more positive if there is provision for training while companies are often uncertain about the value of training for expatriate assignments. With the destination of the expatriate responses to the provision of formal training programs will vary. It was interesting to find that the value of training will vary with the point at which they were asked their views (before, during, and after assignment) and with the anticipated length of the assignment (Brewster). Environmental briefing, basic culture orientation, and some language training (Mendenhall & Dunbar, 1987) also facilitated the expatriate success. Language, cultural awareness, country specific information, cultural assimilation, flexibility, and local business norms. (Romero, 2002) were other factors that enhanced expatriates with learning about how to adjust in the host country.

High performing organizations emphasize knowledge and skill development for the team and managerial skills as well as technical skills (Lawler et al., 2001). Attention to the individual differences in training needs, motivation, and training choices reflects current beliefs about the requirement of effective training (Colquitt, Lepine, & Noe, 2000; Kraiger, 2003).

X. Expatriate Compensation Practices

Several researchers in the past have studied and undertaken research pertaining to expatriate compensation from the viewpoint of different factors.

Baruch 2004 explains that the use of expatriate employees of organizations in their foreign subsidiaries represents a substantial investment with costs of expatriate failure reaching exorbitant levels. Supporting the same view many researchers have tried to estimate the expatriate failure, recent estimates suggest that each expatriate failure, a premature departure, can cost an organization in excess of \$1 million (Insch and Daniels, 2002; Wentland, 2003). In today's intensely competitive labor market attracting and retaining the best and brightest professionals is the life blood of any successful organization with global operations. Further, experienced expatriates are more valuable than ever as organizations continue to extend their global markets. This is crucial since organizations need expatriates who can lead the charge as they seek out new global clients and new revenue streams (Dwyer, 1999; Sims and Schraeder, 2004; Zingheim and Schuster, 2001). A lack of expatriate professionals who know the business and are motivated to perform at the highest level could result in companies not being able to compete adequately in emerging foreign markets. Further, compensation of expatriates is regarded as a key component in the effectiveness of global operations (Lowe et al., 2002). This reinforces why it is imperative for organizations to effectively compensate expatriates, regardless of location (Dwyer, 1999; Freedman and Vardy, 1998). One of the issues that organizations have to address when considering this failure rate is the role that compensation plays in the whole expatriate dynamic (Baruch, 2004). From an operational perspective, many

organizations have adjusted or entirely revamped expatriate compensation (Phillips and Fox, 2003). Organizations quickly discovered that compensation is among the most important factors a prospective expatriate considers when accepting an overseas assignment (Baruch, 2004). There are numerous factors to consider when developing expatriate compensation plans and many organizations are simply not "getting it right" as suggested by a number of studies (e.g. Chen et al., 2002; Wentland, 2003). A key factor that has an impact on expatriate compensation is the consideration (by the parent organization) of local markets in the host country. Research indicates that perhaps no other variable has a greater impact on expatriate compensation (relative to the home country's compensation system and market) than the cost of living in the host country (Frazee, 1998b; Overman, 2000). The vast majority of firms (some 92 percent of firms included in a frequently cited study conducted by Price Waterhouse in 1996 of 370 firms that utilized expatriate employees) considers the cost of living in the host country when computing expatriate compensation (Frazee, 1998b). Generally, employers use a "no loss" approach when developing compensation packages. Within this framework, expatriate compensation is adjusted upward for higher costs of living, but is not adjusted downward if the cost of living in the host country is less than the home country (Frazee, 1998b; Overman, 2000).

Parkes (2008) Argues that organizations need to understand the needs of individuals and the rewards/incentives they value to prevent the breach of their psychological contract. She advocates leadership policies which require all supervisors and managers not only to manage employee but also to know them as people. The only condition to know what appropriate monetary and non-monetary rewards to use and how to provide them in a fair way. Klaus (1995) describes how to establish an effective expatriate program. He reviews the best practices to ensure successful American international assignment, such as development of an expatriate compensation policy, employee selection, immigration, tax-effective compensation, orientation and training, relocation, assessment and repatriation, and program administration.

The results of the study by De Vos and Meganck (2007) highlight that there is a discrepancy between HR specialists and employees' views regarding financial rewards. The former develops retention policies relating financial rewards while employees attach most importance to inducements related to the social atmosphere, career development and job content.

Adopting a total reward perspective of expatriate compensation package means considering their perceptions related to the content of their work as it "embraces everything that employees value in the employment relationship" (O'Neal 1998: 6). Indeed adopting a total reward approach implies that "each aspect of reward, namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and coherent whole" (Armstrong & Stephens 2005: 13).

XI. Expatriate Cross-Cultural Practices

So far, various researchers have written about culture (House, 1998). Caligiuri, Lazarova, and Tarique (2005) point out that cross-cultural training aims at helping employees feel comfortable living and working in a host country, thus enhancing their cross-cultural adjustment and strengthening their ability to understand and appreciate multiple cultural perspectives. On the other hand, cultural awareness training "does not necessarily help the trainees learn anything specific about the host culture in which they will be

interacting” (Bhawuk & Brislin, 2000, p. 170). Ashamalla (1998) argues that CCT should be accompanied by foreign language training because knowledge of the language of the host country is vital to successfully living and working in that country.

Generally, cross-cultural adjustment is conceptualized as the degree of psychological comfort with various aspects of a host country (Black, 1988; Oberg, 1960; Nicholson, 1984). In the past, most researchers have conceptualized cross-cultural adjustment as a unidimensional phenomenon (Gullahorn & Gullahorn, 1962), much as job satisfaction (Wanous & Lawler, 1972) and organizational commitment (Reichers, 1985) originally were.

However, like these two constructs, recent research suggests that cross-cultural adjustment is also a multifaceted construct (Black, 1988; Black & Stephens, 1989). Expatriates adjust to work, to interacting with host nationals, and to the general environment, while spouses adjust to interacting with host nationals and to the general, foreign environment (Black & Stephens, 1989), although the exact type of host country nationals and general environmental factors spouses confront might vary somewhat by individual.

The concept of “cross-cultural adjustment” began with earlier work on culture shock. The culture shock was defined as the period of anxiety before an individual feels comfortable in a new culture (Oberg, 1960). Cross-cultural adjustment is “the individual’s affective psychological response to the new environment and its variables” (Black, 1990). Therefore, the cross-cultural adjustment is an internal, psychological, emotional state and should be measured from the perspective of the individual experiencing the foreign culture (Black, 1990; Searle & Ward, 1990).

XII. Performance Management Practices

Performance is what an organization hires one to do, and to do well (Campbell, Gasser & Oswald, 1996). Borman & Motowidlo (1993) identified two broad categories of performance factors: task performance factors and contextual performance factors. Task performance factors represent the core technical activity of the organization (for example, software development, automobile manufacturing).

Contextual performance factors represent the performance components that support the organizational, social and psychological environment in which the technical core must function. Performance criteria for expatriates fall into three broad categories (Davis, 1998; Dowling & Welch, 2005): objective criteria, subjective criteria and contextual criteria.

Objective criteria include such measures as gross revenues, market share and return on investment. There are several potential problems with such measures. First, all financial figures are generally subject to the problem of currency conversion, and currency fluctuations may make an accurate assessment of financial contribution difficult. Second, host governments may place restrictions on the repatriation of profits and also on currency conversion.

Third, financial measures ignore the ways that results are obtained. That is, they ignore the behaviors used to generate the results. Especially when political or work environments are unstable (for example with frequent strikes), such behaviors are critical. These shortcomings suggest that additional criteria should be used to provide a deeper, fuller understanding of expatriate performance. Such criteria include subjective and contextual criteria. As we saw earlier in our examination of the current status of global performance management systems, most organizations use a combination of objective and subjective criteria.

Subjective criteria include judgments, usually by local executives, of factors such as the expatriate’s leadership style and interpersonal

skills. While local management tends to appraise the expatriate’s performance from its own cultural frame of reference, such an evaluation is usually perceived as more accurate than that from the home office (Oddou & Mendenhall, 2000). Janssens (1994) suggests that performance appraisals of managers of subsidiaries using objective criteria are often supplemented by frequent visits by staff from headquarters and meetings with executives from the parent company. Subjective criteria can be used to complement objective criteria and take into account areas that are difficult to quantify, such as integrity, customer orientation and teamwork. Contextual criteria take into consideration factors that result from the situation in which performance occurs. They include organizational citizenship behaviors (helping and cooperating with others, working with enthusiasm, volunteering for activities, being flexible and open to change) as well as indicators of cross-cultural skill development (for example, language, host culture, communication, networking) (Davis, 1998).

XIII. Findings

Various researchers in the past have studied various IHRM practices and put forth the following findings:

1. Pertaining to the selection of expatriates for international assignments the IHRM practitioners should consider the individual’s proficiency related to job factors, relational dimensions and motivational state.
2. Most of the past researchers feel that expatriates should be trained before taking up an international assignment in various topics like foreign environment, culture, country information, business norms.
3. The most important factor which impacts expatriates performance is their compensation. Hence while drafting the compensation structure of expatriates following elements like cost of living, taxation, adjustments due to inflation and currency fluctuation, rewards, benefits, allowances and incentives should be systematically emphasized.
4. A lot of researchers found that expatriates cultural integration depends upon the extent to which expatriates are trained in cultural awareness, foreign language training, adjustment to various factors, the art of managing cultural shock, and establishing similar policies and procedures between host and parent country.
5. It was found that expatriates performance should be evaluated based upon task factors, contextual factors, external factors, objective criteria, subjective criteria and contextual criteria.

XIV. Conclusion

Success or failure of the multinational organizations in international market depends upon expatriates performance. Their performance depends on so many factors which will reflect on the outcomes of the expatriate. According to this study IHRM practitioners should consider the above points during their IHRM practices which will definitely enhance the performance of expatriates.

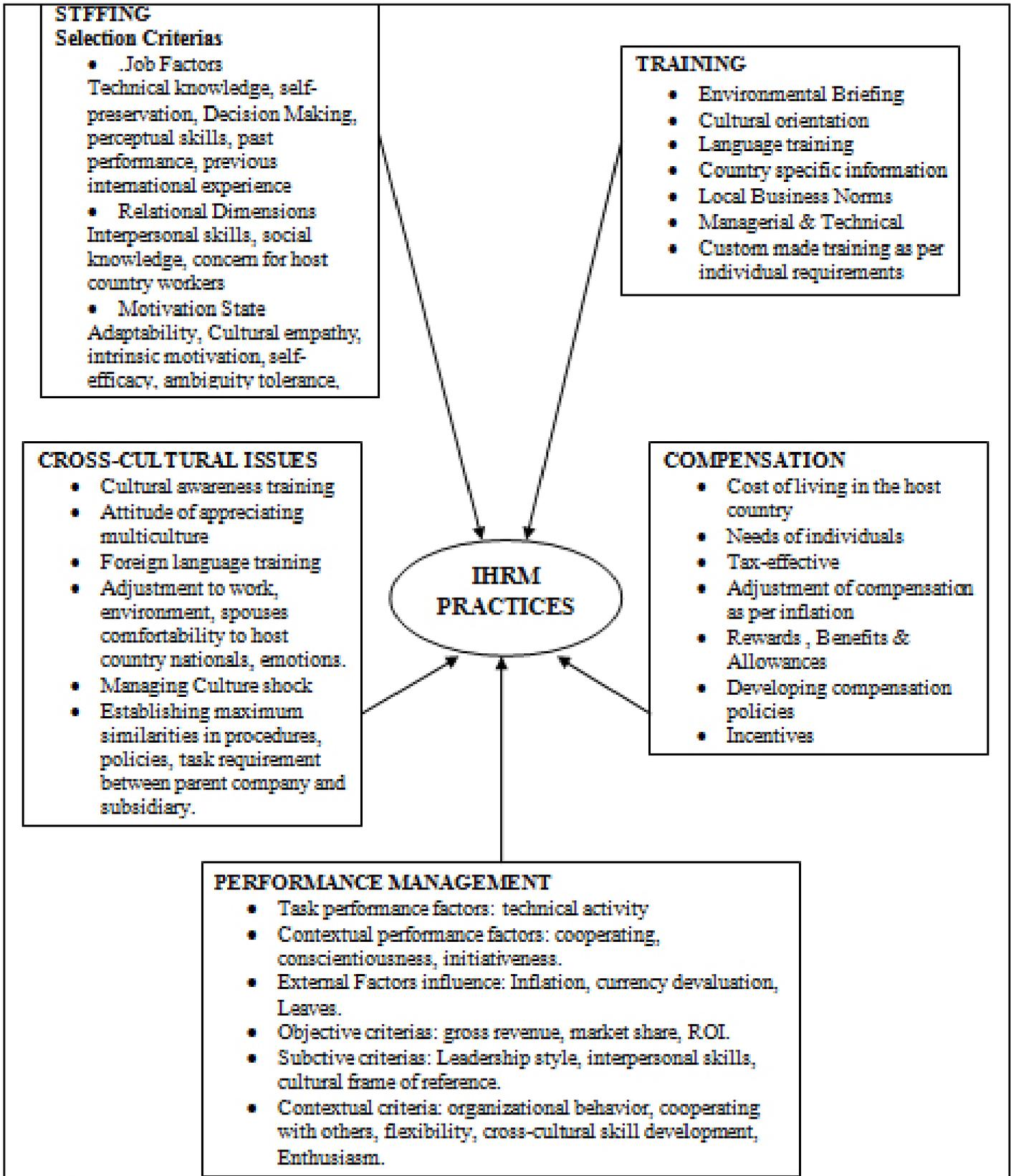


Fig. 1 : The Framework of IHRM Practices

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