

**International Business**  
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**Lecture – 59**  
**International HRM**

Welcome friends. So, I welcome you to the last session of International Business. So, today we will be discussing on the most, one of the most important aspects of international business, I had deliberately kept it for the last. This is the you know the International Human Resource Management.

As you know for any organization the most important asset will be the human resource; because it is the human resource or the human beings that can think and take decisions and based on these decisions, the organization grows in the future, right. So, I will start this case with the small you know case of the Indian IT sector.

So, If I tell you the few names like for example, when I say Vishal Sikka or Satya Nadella you know and Sundar Pichai, Dinesh Paliwal. So, when I say these names you know, these are the people who have a reason in the you know stature and today are working as the CEOs of some of the world's top companies, right.



So, today many Indians have been doing well abroad and they have been doing you know having an excellent carrier right as the leaders of the world economy. So, similarly the Indian IT sector has gone through a tremendous transition in the you know nearby in the recent past.

So, what happened to the Indian IT sector; if you see in one of the articles I was reading, it said that the human resource value of the Indian IT sector can be considered to be around 170 billion. That is the kind of you know experts we are sending outside when to an offshore market and all; so it is around 170 billion and more, it is growing.

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## Case of Indian IT sector

- Expats are generally hired for two main reasons. First, in the initial stages of operations, for their knowledge of and connections to relevant people or stakeholders in the business.
- Second, it is for their specialized knowledge of a given domain or technology that the company is trying to work on in India. Both cases are needed for operations to start and work successfully. The expats mostly come in senior positions and are generally paid well.
- Some of the expats consider India as a low-cost, low-value and low-capability country; this, at times, insults sensibilities here. Low-cost is true, but the low-value and low-capability perceptions need correction
- Leadership issues ✓

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So, India has been one of those markets which has done exceedingly well in the term of the IT and the ITES sector, right. So, what has, why does the Indian IT sector, how did the Indian IT sector boom so well? Because one good reason was to use the knowledge and the you know human resource in a way that helped in its you know growth. Generally the expats, as it says expats are basically the expatriates or the people who stay in some other country and do the work over there.

So, the expats are generally hired for two main reasons as it says. So, expatriates you can understand; somebody suppose is working for a company, but he is working in maybe another country right, would be termed as an expatriate. So, there had for two main reasons; first in the initial stage of operations for the knowledge, right. So, for the knowledge, the technical skill, the expertise, the people are hired right and even they are sent to overseas for to do an assignment, to complete a project, inside project or something, right.

And second reason is for connections to the relevant people or stakeholders in the business. So, these are the two reasons why you know expats are generally hired or you know leaders in the top oppositions are hired by companies.

Second, it is for the specialized knowledge of a given domain or technology; sometimes for a particular technology there might be an expert who is you know, somebody who is an expert in a particular technology. So, as at one point of time I remember the IBM

mainframe was there and some people who were experts, they used to get were hired at a very high good position and were good salaries.

So, both cases are needed for operations to start and work successfully. The expats mostly come in senior positions and are paid well. So, they might be either in the very top leadership position as are the examples I gave you or they might be in the frontline managers also.

So, for example, if Infosys gets a project of XYZ company; so to maintain the project, it sends a lot of you know some of its expert, trained people as a part of their assignment to some other offshore sites and there they do the job and stay for years at the you know project and then maybe they come back at the end.

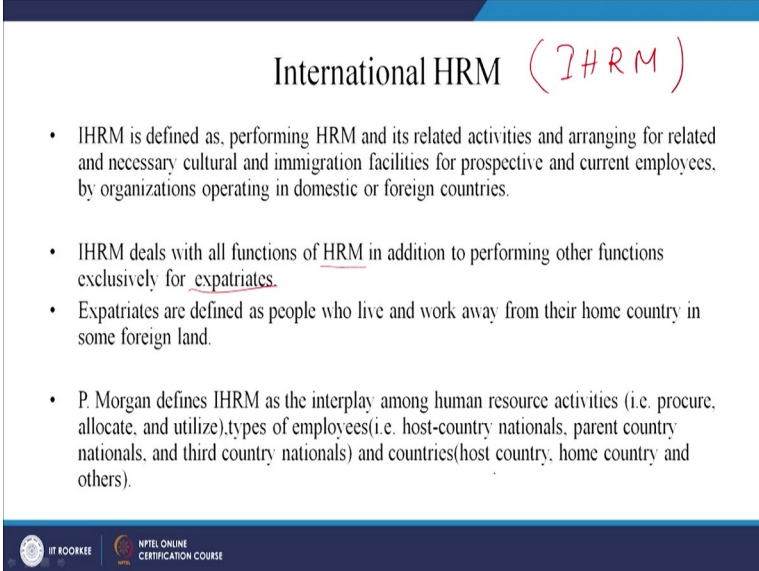
So, some of the expats consider India as a low cost. So, people who have are coming representing their country and company and country and they are let us say working in India; so it has been seen that, they sometimes consider India used to, used to happen.

Now this is changing as a low cost, low value and low capability country. This sometimes insults the sensibilities in the, of the local lights or the local people. Low cost may be true; yes India is a low cost place in comparison that is why it is an advantage that they outsource from us.

But the low value and low capability perceptions are maybe wrong or that needs correction. And another thing is the leadership issue. Many a times if you still, as I gave you an example not only in the IT; but if you look at the service industry for example, the Taj and you know that the group of hotels the ITC and all, they have largely taken the support or helped from the leaders from outside, for that means from they have hired people from some other countries, where the hotel industry or service industry is really doing well.



So, that knowledge would come in and they would it would help them to grow out here. And even when they required to expand their operations in maybe other countries, that knowledge of these leaders helps them, right ok. So, what is we are talking about is basically the human resource management today right; and but in a perspective of not domestic, but international, right.

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### International HRM (IHRM)

- IHRM is defined as, performing HRM and its related activities and arranging for related and necessary cultural and immigration facilities for prospective and current employees, by organizations operating in domestic or foreign countries.
- IHRM deals with all functions of HRM in addition to performing other functions exclusively for expatriates.
- Expatriates are defined as people who live and work away from their home country in some foreign land.
- P. Morgan defines IHRM as the interplay among human resource activities (i.e. procure, allocate, and utilize), types of employees (i.e. host-country nationals, parent country nationals, and third country nationals) and countries (host country, home country and others).

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So, international human resource management or are is now, I will be writing it as IHRM is defined as performing human resource management and its related activities and arranging for related and necessary cultural and immigration facilities for prospective and current employees by organizations operating in domestic or foreign countries.

So, what it says? It is the human resource related activities; like for example, bringing them and adjusting them to the local conditions and you know making their, creating facilities for them all these things are a part of the IHRM. It deals with all the functions of the human resource management which happens domestically also, and in addition to performing other functions exclusively for the expatriates.

Now, who are the expatriates if you want a definition, it says? They are defined as people who live and work away from their home country in some foreign land. Suppose tomorrow you go for a job, let us say you are an Indian and you go for a job and work let us say in London in some company; so then you are an expatriate, right.

So, you are working you are, you know you live in India basically; but you are today working away from India and in some foreign land. Morgan defines IHRM as the interplay among human resource activities; that is procure, allocate and utilize. Types of employees host country national, parent country nationals and third country nationals; we will discuss all of these, and countries like host country, home country and others.

So, basically international human resource management is deals with all those people around who are working in some other country or you know anywhere or others who are coming to our country and helping us in the growth of our you know economy.

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The slide is titled "What is IHRM" in a large, bold, black font. Below the title, there are two bullet points. The first bullet point states: "Boxall, P. (1992) defined International Human Resource Management (IHRM) as 'concerned with the human resource problems of multinational firms in foreign subsidiaries (such as expatriate management) or more broadly, with the unfolding HRM issues that are associated with the various stages of the internationalisation process. (Boxhall, P. 1992)." The second bullet point states: "Mark Mendenhall (2000) stated that IHRM includes comparative HRM studies; e.g. differences in how companies in Japan, Thailand, Austria and Switzerland plan for upgrading of employee skills and so on." At the bottom of the slide, there are two logos: "IIT ROORKEE" on the left and "NPTEL ONLINE CERTIFICATION COURSE" on the right.

## What is IHRM

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Boxall defined international human resource management as concerned with the human resource problem of multinational firms in foreign subsidiaries, such as the expatriate management or more broadly, with the unfolding HRM issues that are associated with the various stages of internationalization process. So, it talks about basically, it is concerned with the human resource problems of MNCs basically, right.

Mendenhall stated that, IHRM includes comparative HRM studies; comparative means comparison between two nations, right. Differences in how companies in Japan, Thailand, Austria and Switzerland plan for upgrading of employee skills and so on, right.

So, basically we understand that, international human resource management is the same human resource management; but it has a different perspective, just because you are getting into a new country and you have to adjust and learn to acclimatize or you know accustomed to that place, right. And then there is a small complexity that comes in with it.

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## Why IHRM?

- Increasing globalization has led to movement of firms and employees all over the world ✓
- Outsourcing ✓
- Firms have faced major issues due to human resource management mistakes
- Developing managerial talent in a global business environment
- Managing multicultural workforce (mgt, sv)
- Advances in technology ✓

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Why is it important? Why you know international human resource management is important? First of all the whole world has expanded drastically; today the whole globe has become one single market. So, increased globalization has led to the movement of firms and employees all over the world, right.

And then as if you know, after outsourcing became a phenomenon or a buzzword in during the last 20, 25 years, 30 years; Indian sector for example, for India at least I have seen that, a lot of IT sectors you know grew and they were in demand.

People were hired from India at a very less cost and that helped the foreign companies to not only achieve economic benefits, but also special skills were achievable. Then firms have major, faced major issues but; you know due to human resource management mistakes.

So, there are cases where companies had, have merged you know and after that what has happened is, the because of the cross the cultural differences between the two companies you know or the companies; there was conflict between the human resource right of these two different companies who have merged, and then that has led to the failure or difficulties for the companies, right.

Developing managerial talent in a global business environment, this is also a requirement. Today most of the business schools, good business schools they have

courses like international business; because they want to bring in people from different with experience from different backgrounds, so that they can come and you know as give their opinion and suggestions and then there is a global kind of a learning, right. So, that has become a very important task, and these managers tomorrow can get into you know any company and then they can become good leaders.

Managing multicultural workforce; so as I said when two or when a merger or you know joint venture happens right or JV happens or strategy aligns happens, so in that condition you have to work with people, from different backgrounds different cultural backgrounds. So, how do you handle this? So, for that, it also international human resource management helps you, sensitizes you to learn that.

Today advances in technology has become also a very to, played a very important role in the IHRM; because advances in technology has forced us to bring people or help in the movement of people who are there, who are the experts in that field to go from one place to other and you know share their knowledge. So, that has also become one key reason for IHRM.

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International HRM vs Domestic HRM :

- Various nationalities and culture ✓
- Employees' family complexities ✓
- Influence of international environment: technology, political ideologies
- Varieties of functions: logistical arrangement, immigration details, selection and recruitment processes. , Compensation, Incentive

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How are they different? So, we can understand it, but let us still talk about it. Various nationalities and culture; the first thing is there are several different kinds of nationalities and cultures involved when you talk about the you know international HRM versus the

domestic HRM. Now the family complexity, now this is something that might look very simple, but it is a very complex matter.

So, suppose tomorrow I am posted outside some place and I cannot leave my family, because I am I may go for 2 years, 3 years, 4 years; I do not know what is the time period. So, when I am going for a long time period; so my family might, I may be able to adjust, but my family might not be able to adjust. So, what do you do then? So, you cannot leave your family right, your children and your family members.

So, at that point of time, this becomes an important issue; how do the companies manage the family issues of these people who are or these employees. Influence of international environment technology, political ideologies right; so the political ideologies are also different.

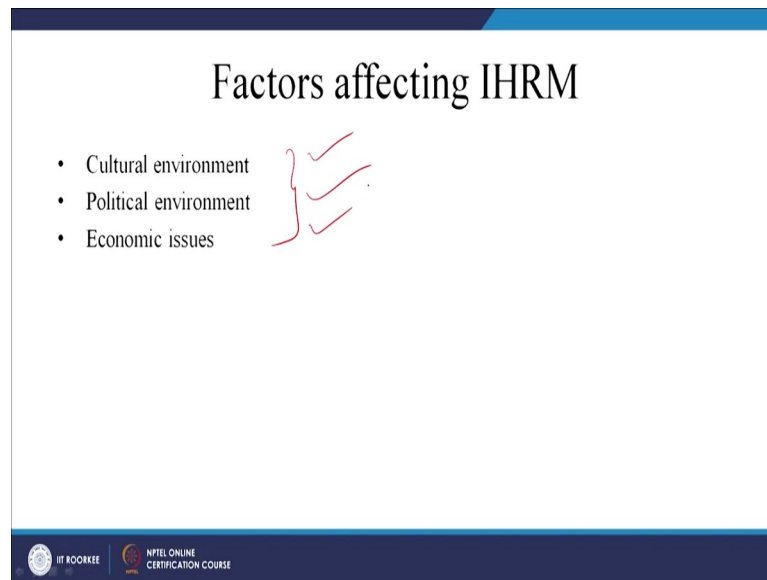
Suppose let us say, people are working from here and they are positioned in let us say in US or Canada or Australia; so there might be political differences, the ideologies which are different, there might be cultural differences and the whole environment might be, the legal challenges might be there, understanding of the legal climate, so many things could be there.

The functions, for example logistical arrangement, immigration details, selection and recruitment process; this is an important thing when it comes to the international HRM. Otherwise in a domestic HRM case, it is not very complicated; but when it comes to international HRM, you have to make all these logistical arrangements like the immigration details, the selection and recruitment process is also not easy and then you need to understand the compensation right and the taxation right, issues which can come in the future.

So, of all these issues makes an international human resource management slightly complicated, right.



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So, what are the major factors affecting IHRM as we see? The three first, the three most important factors are; the cultural environment or the cultural factors, the political factors and the economic issues, right. So, somebody when you; I will tell you an example, when the Australian cricket team came to India to play in one of the series.

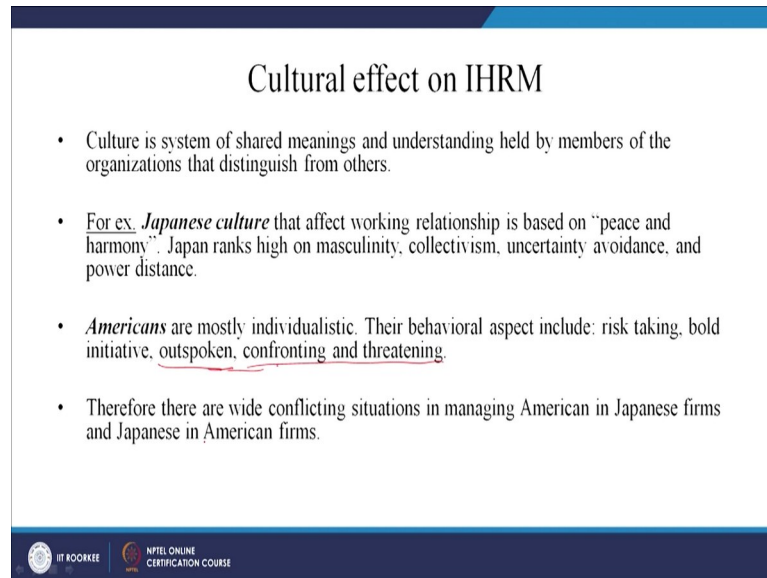
Almost all of the players had a upset stomach; just because they could not cope with the Indian food habits, right. Similarly when in a recent series when Bangladesh came to India; they could not play in Delhi just because of the high pollution levels, right. But whatever it is; so food, your language, your you know your behavioral habits all these form part of the cultural environment.

So these can affect largely in the entire. For example, when Indians go abroad they find tough, really tough to adjust to the food habits outside. So, they find it very difficult, because almost and if somebody is in obviously; for example a vegetarian, he finds it very very tough, because he feels as if he is he would be choked. So, when somebody is not comfortable; how would you work, that is an issue.

And similarly the political environment, so the political environment if it is changing rapidly; so it might affect the MNCs work culture or the companies work culture, so that will also have a bearing on the human resource.

And finally, the economic issues as we just discussed; what is the compensation to be paid, what is the you know the taxation policies for them for somebody who is an expatriate, how do you deal with these issues, how do you bring them, what is the logistical arrangements, how what is the staying arrangement you will make for them all these are part of the human resource, right.

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The slide is titled "Cultural effect on IHRM". It contains four bullet points. The first bullet point defines culture as a system of shared meanings and understanding. The second bullet point gives an example of Japanese culture based on "peace and harmony" and lists high scores on masculinity, collectivism, uncertainty avoidance, and power distance. The third bullet point describes Americans as mostly individualistic with behavioral aspects like risk taking, bold initiative, outspokenness, and confronting/threatening. The fourth bullet point notes the wide conflicting situations in managing Americans in Japanese firms and Japanese in American firms. The slide footer includes logos for IIT ROORKEE and NPTEL ONLINE CERTIFICATION COURSE.

### Cultural effect on IHRM

- Culture is system of shared meanings and understanding held by members of the organizations that distinguish from others.
- For ex. *Japanese culture* that affect working relationship is based on "peace and harmony". Japan ranks high on masculinity, collectivism, uncertainty avoidance, and power distance.
- *Americans* are mostly individualistic. Their behavioral aspect include: risk taking, bold initiative, outspoken, confronting and threatening.
- Therefore there are wide conflicting situations in managing American in Japanese firms and Japanese in American firms.

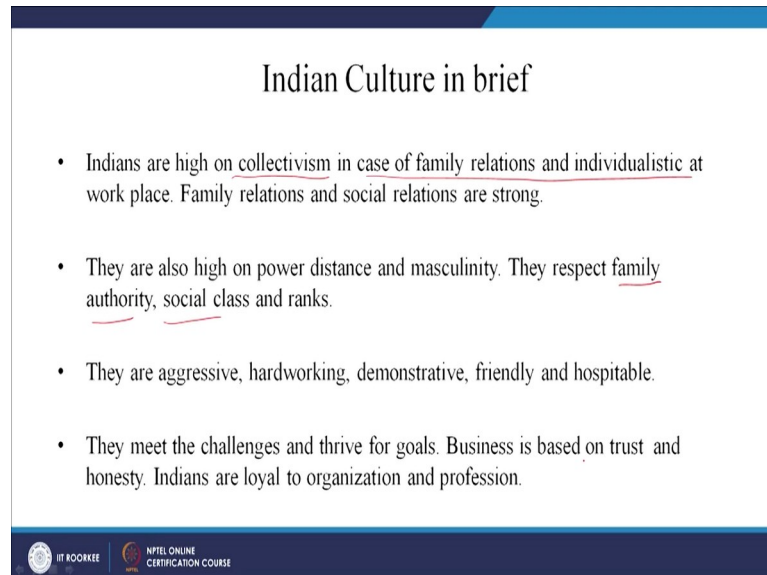
Now, as we say culture is a system of shared meanings and understanding held by members of the organizations that distinguish from others. So, culture is the shared meaning. So, we can understand each other we, because we have been born in one place and we understand each other, our sign language or our you know verbal you know body language, or speaking, the way we speak the our written language is more or less same.

Japanese culture for example, that affect working relationship is based on peace and harmony. Japan ranks high on masculinity, collectivism, uncertainty avoidance and power distance, right. But Americans are mostly individualistic. Their behavioral aspect include; risk taking, bold initiative, outspoken; and this is something many people, in most of the countries people do not understand the Americans for that, right.

On the other hand the Japanese are extremely they are soft spoken right; confronting and threatening is in general habits found in the American culture. And that is nothing wrong, because that is a part of the culture, they are accept, they accept, they have been accepting each other like that forever; therefore, there are wide conflicting situations in



managing American in Japanese firms and Japanese in American firms here is an example.

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### Indian Culture in brief

- Indians are high on collectivism in case of family relations and individualistic at work place. Family relations and social relations are strong.
- They are also high on power distance and masculinity. They respect family authority, social class and ranks.
- They are aggressive, hardworking, demonstrative, friendly and hospitable.
- They meet the challenges and thrive for goals. Business is based on trust and honesty. Indians are loyal to organization and profession.

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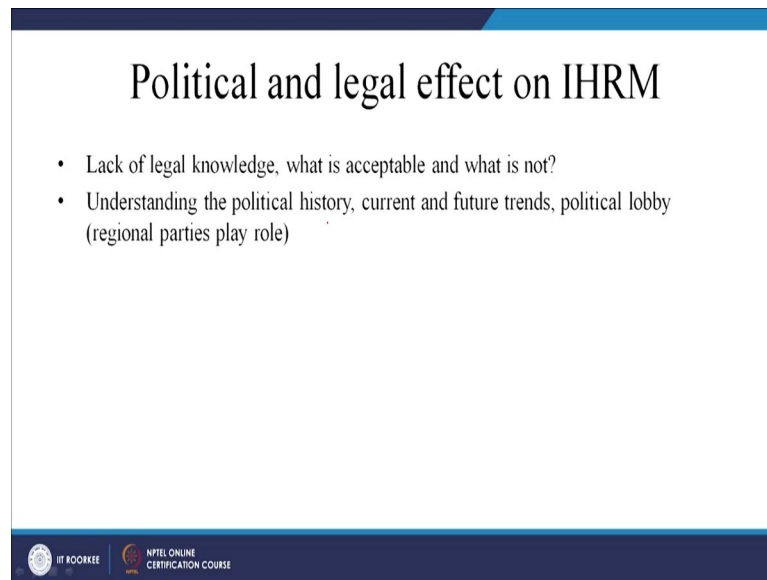
Indians are also high on collectivism like the Japanese, in case of family relations and individualistic at workplace, right. So, family relations and social relations are very strong in our culture and we also give importance to that; and anybody who does not respect it, we have a you know kind of a not a very good feeling for them.

So, if you have a you know in a team, you have a diverse set of people and somebody is an American, somebody is in Canadian, somebody is in Pakistan, somebody is an Indian somebody is a German.

Then you find these kind of complexities arising and people tend to compare it with their own culture and try to say somebody's bad or good, which is wrong; but that is how the human mind works. They also high and power distance and masculinity; India, in India is very high, the power distance is high. They respect family or authority, right.

Family authorities respected, social class and ranks. They are aggressive, hardworking, demonstrative, friendly and hospitable. They meet the challenges and thrive for goals. Businesses based on trust and honesty. Indians are loyal to organization professions. So, this is something about the Indian culture, ok.

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## Political and legal effect on IHRM

- Lack of legal knowledge, what is acceptable and what is not?
- Understanding the political history, current and future trends, political lobby (regional parties play role)

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Now, what is the political and legal effect? So, lack of legal knowledge, what is acceptable and what is not in a market; if you do not have an idea about it, then what happens is sometimes one may take a you know, Indians fall prey to this thing, these habits very I have seen in many places. So, many Indians fall prey to such kind of, and why Indians there are other countries also; but I am an Indian, so I can speak of only India.

So understanding the political history also is very important; because unknowing, unknowingly sometimes you may offend an Indian or a American or a German by not knowing their political history and saying speaking something.

Current and future trends and political lobby; now for example, look at the Indian market for example. So, the Indian political condition is very complex; now you not only have large parties, but you have small small regional parties, and these regional parties play an equally important role when it comes to you know decision making.

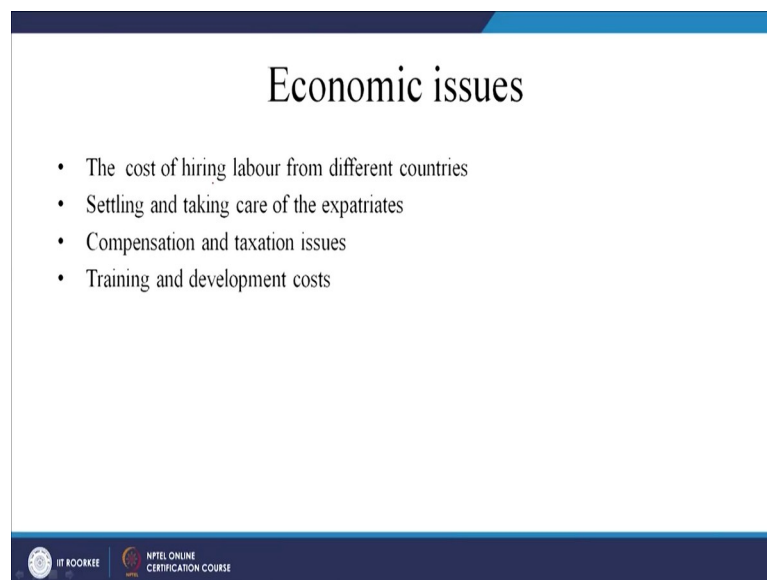
So, how is this lobby made; for example, you see POSCO was a company which came to you know India to set up a plant in Orissa. Now they had very high opinion, they had very, they were very ambitious and they thought they would surely do it.

But then after they stayed for a long time and after that, they found that the natives of this place and the regional parties they did not support at all and they opposed them and

they you know tried going against them. It so happened that, after a long time POSCO had to withdraw its policy; they had to you know back out and they left India and again went back to their home country

So, the point is what I am trying to say here is; the political legal effect is also very high, when it comes to the success of a firm in the international business. So, international human resource management also talks about understanding this political climate very well; because you get a leader if somebody is in the leadership position and if he does some mistake that becomes very costly.

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**Economic issues**

- The cost of hiring labour from different countries
- Settling and taking care of the expatriates
- Compensation and taxation issues
- Training and development costs

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Similarly the economic issues that are like for; the cost of hiring the labor from different countries, settling and taking care of the expatriates, right. So, when you bring in a you know somebody to settle, make them you know comfortable settle them and take care of them; it takes a lot of time and money.

So, it has to be worth enough. Compensation and taxation issues; now how do you deal with the taxation issues? Is it like they have to pay taxation in both the countries or they have to pay tax in one country? What is their law of both the countries saying, where they are the moment and where they belong to?

Finally, what is the training and development cost? It is not that you bring in somebody and just start making, making them start work. So, what is the training and development

cost? There has to be some training and development costs. So, all these two taken together when you see; this becomes the economic issues also play a very vital role in deciding how a firm should go for hiring people from other places. This is all for today and we will wind up here, and we will continue from here in the next lecture, ok.

Thank you very much.