

Human Resource Selection & Development: Challenges for MNC's

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<https://doi.org/10.62345/jads.2019.8.1.2>

Abstract

Firms conducting international business need to be particularly concerned with human resource management issues, including selection, training, and development to better prepare their personnel for overseas assignments. This research focuses on potential sources of human resources that can be used for overseas assignments, procedures that are used in the selection process, and compensation issues. In addition, an attention is given to training and development and to the various types of training that commonly is offered. The specific objectives of this research are to identify the three basic sources that MNCs can tap when filling management vacancies in overseas operations in addition to options of subcontracting and outsourcing; to describe the selection criteria and procedures used by the organization and individual managers when making final decisions; to discuss the reasons why people return from overseas assignments, and present some of the strategies used to ensure a smooth transition back into the home-market operation; to describe the training process, the most common reasons for training, and the types of training that often are provided; to explain how cultural assimilators work and why they are so highly regarded.

Keywords: Adaptability Screening, International Selection Criteria, Learning, Localization, Regional System, Training.

1. Introduction

In this research paper, we will explore the procedure of international human resource selection and training and examine the difficulties of developing a global human resource management process in the presence of dissimilar cultural norms. At the same time, we will survey emerging trends in international human resource management, including the increasing use of temporary and contingent staffing to fill the growing global HR needs of MNCs. We will also review training and development programs designed to help employees prepare for and succeed in their foreign assignments and adjust to conditions once they return home.

2. International Human Resources

Attracting the most qualified employees and matching them to the jobs for which they are best suited is important for the success of any organization. For international organizations, the selection and development of human resources is especially challenging and vitally important. As prevalent and useful as e-mail and Web- and teleconferencing have become, and despite the increasing incidence of subcontracting and outsourcing, face-to-face human contact will remain an important means of communication and transferring "tacit" knowledge that cannot be formalized in manuals or written guidelines. Hence, most companies continue to deploy human resources around the world as they are needed,

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although the range of options for filling human resources needs is expanding. MNCs can tap four basic sources for positions; home-country nationals; host-country nationals; third-country nationals. In addition, many MNCs are outsourcing aspects of their global operations and in so doing are engaging temporary or contingent employees. Home-country nationals are managers who are citizens of the country where the MNC is headquartered. In fact, sometimes the term headquarters national is used. These managers commonly are called expatriates, or simply "expats," which refers to those who live and work outside their home country. Historically, MNCs have staffed key positions in their foreign affiliates with home-country nationals or expatriates. Based on research in U.S., European, and Japanese firms, Rosalie Tung found that U.S. and European firms used home-country nationals in less developed regions but preferred host-country nationals in developed nations. The Japanese, however, made considerably more use of home-country personnel in all geographic areas, especially at the middle- and upper-level ranks."

Host-Country Nationals are local managers who are hired by the MNC. For a number of reasons, many multinationals use host-country managers at the middle and lower level ranks: Many countries expect the MNC to hire local talent, and this is a good way to meet this expectation. Also, even if an MNC wanted to staff all management positions with home-country personnel, it would be unlikely to have this many available managers, and the cost of transferring and maintaining them in the host country would be prohibitive. This traditional pattern of managerial positions filled by home and host-country personnel illustrates why it is so difficult to generalize about staffing patterns in an international setting. Third-Country Nationals (TCNs) are managers who are citizens of countries other than the country in which MNC is headquartered or the one in which they are assigned to work by the MNC. Available data on third-country nationals are not as extensive as those on home or host-country nationals. Tung found that the two most important reasons that U.S. MNCs use third-country nationals were that these people had the necessary expertise or were judged to be the best ones for the job. European firms gave only one answer. The individuals were the best ones for the job. A number of advantages have been cited for using TCNs. One is that the salary and benefit package usually is less than that of a home-country national, although in recent years the salary gap between the two has begun to diminish. A second reason is that the TCN may have a very good working knowledge of the region or speak the same language as the local people. This helps to explain why many U.S. MNCs hire English or Scottish managers for top positions at subsidiaries in former British colonies such as Jamaica, India, the West Indies, and Kenya. It also explains why successful multinationals such as Gillette, Coca-Cola, and IBM recruit local managers and train them to run overseas subsidiaries.

3. Selection Criteria for International Assignments

Making an effective selection decision for an overseas assignment can prove to be a major problem. Typically, this decision is based on international selection criteria, which are factors used to choose international managers. These selections are influenced by the MNC's experience and often are culturally based. Sometimes as many as a dozen criteria are used, although most MNCs give serious consideration to only five or six. Some selection criteria are given a great deal of weight; others receive, at best, only lip service. A company sending people overseas for the first time often will have a much longer list of criteria than will an experienced MNC that has developed a "short list." For example, in one study, Tung found that personnel sent overseas by MNCs could be grouped into four categories: chief executive officer, functional head, troubleshooter, and operative and each category had its own criteria for selection. Typically, both technical and human criteria are considered. Firms that fail to consider both often find that their rate of failure is quite high. Overseas managers must be able to adapt to change. They also need a degree of cultural toughness. Research shows that

many managers are exhilarated at the beginning of their overseas assignment. After a few months, however, a form of culture shock creeps in, and they begin to encounter frustration and feel confused in their new environment. One analysis noted that many of the most effective international managers suffer this cultural shock. As this initial and trying period comes to an end, an expatriate's satisfaction with Renditions tends to increase. In fact, after the first two years, most people become more satisfied with their overseas assignment than when they first arrived. Research also shows that men tend to adjust a little faster than women, although both sexes exhibit a great deal of similarity in the degree of their satisfaction with overseas assignments. In addition, people over 35 years of age tend to have slightly higher levels of satisfaction after the first year, but managers under 35 have higher satisfaction during the next three to four years. In all cases, however, these differences are not statistically significant. Organizations examine a number of characteristics to determine whether an individual is sufficiently adaptable.

Most organizations require that their overseas managers have good physical and emotional health, some examples are fairly obvious. An employee with a heart condition would be rejected for overseas assignment; likewise, an individual with a nervous disorder would not be considered. The psychological ability of individuals to withstand culture shock also would be considered, as would the current marital status as it affects the individual's ability to cope in a foreign environment. Most MNCs strive for a balance between age and experience. There is evidence that younger managers are more eager for international assignments. These managers tend to be more "worldly" and have a greater appreciation of other cultures than older managers do. By the same token, young people often are the least developed in management experience and technical skills; they lack real-world experience. To gain the desired balance, many firms send both young and seasoned personnel to the same overseas post. Many companies consider an academic degree, preferably a graduate degree, to be of critical importance to an international executive; however, universal agreement regarding the ideal type of degree is nonexistent. MNCs, of course, use formal education only as a point of departure for their own training; and development efforts.

One recognized weakness of many MNCs is that they do not give sufficient attention to the importance of language training. English is the primary language of international business, and most expatriates from all countries can converse in English. Those who can speak only English are at a distinct disadvantage when doing business in non-English-speaking countries, however. The ability to influence people to act in a particular way leadership is another important criterion in selecting managers for an international assignment. Determining whether a person who is an effective leader in the home country will be equally effective in a seas environment can be difficult, however. When determining whether an applicant has the desired leadership ability, many firms look for specific characteristics, such as maturity, emotional stability, the ability to communicate well, independence, initiative, creativity and good health. If these characteristics are present and the person has been an effective leader in the home country, MNCs assume that the individual also will do well overseas.

4. International Human Resource: Selection Procedures

MNCs use a number of selection procedures. The two most common are tests and interviews. Some international firms use one; smaller percentages employ both. Theoretical models containing the variables that are important for adjusting to an overseas assignment have been developed. These adjustment models can help contribute to more effective selection of expatriates. In recent years, international human resource management specialists have developed models that help to explain the factors involved in effectively adjusting to overseas assignments. These adjustment models help to identify the

underpinnings of the effective selection of expatriates. There are two major types of adjustments that an expatriate must make when going on an overseas assignment. One is the anticipatory adjustment. This is carried out before the expat leaves for the assignment. The other is the in-country adjustment, which takes place on site. The anticipatory adjustment is influenced by a number of important factors. One factor is the pre-departure training that is provided. This often takes the form of cross-cultural seminars or workshops, and it is designed to acquaint expats with the culture and work life of the country to which they will be posted. Another factor affecting anticipatory adjustment is the previous experience the expat may have had with the assigned country or with countries with similar cultures. These two factors, training and previous experience help to determine the accuracy of the expat's expectations.

The organizational input into anticipatory adjustment is most directly related and concerned with the selection process. Traditionally, MNCs relied on only one important selection criterion for overseas assignments technical competence. Obviously, technical competence is important, but it is only one of a number of skills that will be needed. Once the expatriate is on site, a number of factors will influence his or her ability to adjust effectively. One factor is the expat's ability to maintain a positive outlook in the face of a high-pressure situation, to interact well with host nationals, and to perceive and evaluate the host country's cultural values and norms correctly. A second factor is the job itself, as reflected by the clarity of the role the expat plays in the host management team, the authority the expat has to make decisions, the newness of the work-related challenges and the amount of role conflict that exists. A third factor is the organizational culture and how easily the expat can adjust to it. A fourth is non-work matters, such as the toughness with which the expatriate faces a whole new cultural experience and how well his or her family can adjust to the rigors of the new assignment. A fifth and final factor identified in the adjustment model is the expat's ability to develop effective socialization tactics and to understand "what's what" and "who's who" in the host organization. These anticipatory and in-country factors will influence the expatriate's mode and degree of adjustment to an overseas assignment.

5. Compensation

One of the reasons why there has been a decline in the number of expats in recent years is that MNCs have found that the expense can be prohibitive. Reynolds estimated that, on average, "expats cost employers two to three times as much as home-country counterparts and frequently ten or more times as much as local nationals in the country to which they are assigned. Approximately one-third of compensation for regular employees is benefits. These benefits compose a similar, or even larger, portion of expat compensation. A number of thorny issues surround compensation for expatriates, however. Most U.S. based MNCs include expatriate managers in their home-office benefits program at no additional cost to the expats. If the host country requires expats to contribute to their social security program, the MNC typically picks up the tab. Fortunately, several international agreements between countries recently have eliminated such dual coverage and expense. Additionally, MNCs often provide expatriates with extra vacation and with special leaves. The MNC typically will pay the airfare for expats and their families to make an annual visit home, for emergency leave, and for expenses when a relative in the home country is ill or dies.

Allowances are an expensive feature of expatriate compensation packages. One of the most common parts is a cost-of-living allowance, a payment for differences between the home country and the overseas assignment. This allowance is designed to provide the expat with the same standard of living that he or she enjoyed in the home country may, and it may cover a variety of expenses, including relocation, housing, education, and hardship. Relocation expenses typically involve moving, shipping and storage charges that are

associated with personal furniture, clothing, and other items that the expatriate and his or her family are (or are not) taking to the new assignment. Related expenses also may include cars and club memberships in the host country, although these perks commonly are provided only to senior-level expats. Housing allowances cover a wide range. Some firms provide the expat with a residence during the assignment and pay all associated expenses. Education allowances for the expat's children are another integral part of the compensation package. These expenses cover costs such as tuition, enrollment fees, books, supplies, transportation, room, board, and school uniforms. Hardship allowances are designed to induce expats to work in hazardous areas or in an area with a poor quality of life.

In recent years some MNCs have also been designing special incentive programs for keeping expats motivated. In the process, a growing number of firms have dropped the ongoing premium for overseas assignments and replaced it with a one-time, lump-sum premium. The lump-sum payment has a number of benefits. The specific incentive program that is used will vary, and expats like this. Finally, it is important to recognize that growing numbers of MNCs are beginning to phase out incentive premiums; instead, they are focusing on creating a cadre of expats who are motivated by nonfinancial incentives. Another major component of expatriate compensation is tax equalization. Usually, MNCs pay the extra tax burden. The most common way is by determining the base salary and other extras (e.g., bonuses) that the expat would make if based in the home country. Taxes on this income then are computed and compared with the taxes due on the expat's income. Any taxes that exceed what would have been imposed in the home country are paid by the MNC and any windfall is kept by the expat as a reward for taking the assignment.

6. Individual and Host-Country Viewpoints

Until now, we have examined the selection process mostly from the standpoint of the MNC. What will be best for the company? However, two additional perspectives for selection warrant consideration, that of the individual who is being selected and that of the country to which the candidate will be sent. Research shows that each has specific desires and motivations regarding the expatriate selection process. Why do individuals accept foreign assignments? One answer is a greater demand for their talents abroad than at home. Another interesting focus of attention has been on those countries that expatriates like best. Five of the countries that they liked very much were Switzerland, Belgium, England, the United States, and Portugal. Today these countries are still quite popular, although the specific city is typically of even greater importance. What are the best cities? One way of answering this question is by determining the quality of life in the metropolis. This is usually done by measuring a host of criteria, including the city's educational system, recreational facilities, communication system, transportation system, cost of living, and the degree of personal safety one can expect to find there.

7. Repatriation of Expatriates

For most overseas managers, repatriation, the return to one's home country, occurs within five years of the time they leave. Few expatriates remain overseas for the duration of their stay with the firm. When they return, these expatriates often find themselves facing readjustment problems, and some MNCs are trying to deal with these problems through use of transition strategies.

To help smooth the adjustment from an overseas to a stateside assignment, some MNCs have developed transition strategies, which can take a number of different forms. One is the use of repatriation agreements, whereby the firm tells an individual how long she or he will be posted overseas and promises to give the individual, on return, a job that is mutually acceptable. This agreement typically does not promise a specific position or salary, but the agreement may state that the person will be given a job

that is equal to, if not better than, the one held before leaving. Some firms also rent or otherwise maintain expatriates' homes until they return. The Aluminum Company of America and Union Carbide both have such plans for managers going overseas. This plan helps to reduce the financial shock that often accompanies home shopping by returning expatriates. A third strategy is in use senior executives as sponsors of managers abroad. Still another approach is to keep expatriate managers apprised of what is going on at corporate headquarters and to plug these managers into projects at the home office whenever they are on leave in the home country. This helps maintain the person's visibility and ensures the individual is looked on as a regular member of the management team. In the final analysis, a proactive strategy that provides an effective support system to allay expatriate concerns about career issues while serving abroad may work best. Tung found that the successful U.S., European, Japanese, and Australian MNCs that she studied had mentor programs (one-on-one pairing of an expatriate with a member of home-office senior management); a separate organization unit with primary responsibility for the specific needs of expatriates; or maintenance of constant contacts between the home office and the expatriate.

8. Training in International Management

Training is the process of altering employee behavior and attitudes in a way that increases the probability of goal attainment. Training is particularly important in preparing employees for overseas assignments because it helps ensure that their full potential will be tapped. One of the things that training can do is to help expatriate managers better understand the customs, cultures, and work habits of the local culture. The simplest training, in terms of preparation time, is to place a cultural integrator in each foreign operation. This individual is responsible for ensuring that the operation's business systems are in accord with those of the local culture. The integrator advises, guides, and recommends actions needed to ensure this synchronization. Unfortunately, although using an integrator can help, it is seldom sufficient. Recent experience clearly reveals that in creating an effective global team, the MNC must assemble individuals who collectively understand the local language, have grown up in diverse cultures or neighborhoods, have open, flexible minds, and will be able to deal with high degrees of stress. The most common topics covered in cultural training are social etiquette, customs, economics, history, politics, and business etiquette, however, the MNC's overall philosophy of international management and the demands of the specific cultural situation are the starting point. This is because countries tend to have distinctive human resource management (HRM) practices that differentiate them from other countries.

The type of training that is required of expatriates is influenced by the firm's overall philosophy of international management. For example, some companies prefer to send their own people to staff an overseas operation; others prefer to use locals whenever possible. Briefly, four basic philosophical positions of multinational corporations (MNCs) can influence the training program. All four of these philosophical positions can be found in the multinational arena, and each puts a different type of training demand on the MNC. For example, ethnocentric MNCs will do all training at headquarters, but polycentric MNCs will rely on local managers to assume responsibility for seeing that the training function is carried out. Another important area of consideration for development is learning styles. Learning is the acquisition of skills, knowledge, and abilities that result in a relatively permanent change in behavior. Of course, the way in which training takes place can be extremely important. A great deal of research has been conducted on the various types and theories of learning. The application of these ideas in an international context often can be quite challenging because cultural differences can affect the learning and teaching. Moreover, research shows that people with different learning styles prefer different learning environments, and if it is a mismatch between the preferred learning style and the work environment, dissatisfaction and

poor performance can result. In addition to these conclusions, those responsible for training programs remember that even if learning does occur, the new behaviors will not be used if they are reinforced.

Training programs are useful in preparing people for overseas assignments for many reasons. These reasons can be put into two general categories organizational and personal. Organizational reasons for training relate to the enterpriser at large and its efforts to manage overseas operations more effectively. One primary reason is to help overcome ethnocentrism, the belief that one's way of doing things is superior to that of others. Another organizational reason for training is to improve the flow of communication between the home office and the international subsidiaries and branches. Finally, another organizational reason for training is to increase overall efficiency profitability. Research shows that organizations that closely tie their training and human resource management strategy to their business strategy tend to outperform those that do not. The primary reason for training overseas managers is to improve their ability to interact effectively with local people in general and with their personnel in particular. Increasing numbers of training programs now address social topics such as how to take a client to dinner, effectively apologize to a customer, appropriately address one's overseas colleagues, communicate formally and politely with others, and learn how to help others "save face." These programs also focus on dispelling myths and stereotypes by replacing them with facts about the culture.

9. Conclusion

MNCs can use four basic sources for filling overseas positions home-country nationals, (expatriates), host-country nationals, third-country nationals. Many criteria are used in selecting manager is to get overseas assignments. Some of these include adaptability, independence, self-reliance, physical and emotional health, age, experience, education, knowledge of the local language, motivation, the support of spouse and children, and leadership. Individuals who meet selection criteria are given some form of screening. Some firms use psychological testing, but this approach has lost popularity in recent years. Compensating expatriates can be a difficult problem, because there are many variables to consider. However, most compensation packages are designed around four common elements: base salary, benefits, allowances, and taxes. Working within these elements, the MNC will tailor the package to fit the specific situation. A manager might be willing to take an international assignment for a number of reasons increased pay, promotion potential, the opportunity for greater responsibility, the chance to travel, and the ability to, use his or her talents and skills. At some time, most expatriates return home, usually when their predetermined tour is over. Training is the process of altering employee behavior and attitudes to increase the probability of goal attainment. Many expatriates need training before (as well as during) their overseas stay. A number of factors will influence a company's approach to training. There are two primary reasons for training: organizational and personal.

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