

# Cross Cultural Issues in International Human Resource Management

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**Abstract** Globalized economics, multinational corporations, foreign direct investment and still increasing migration flows result in more intensive professional contact of people from different cultures and consequently also in more apparent display of intercultural differences. These differences seem to be crucial for human resource management in international environment that is shaped by trends mentioned above. By description method, the paper presents the strategies that foreign subsidiaries of multinational corporations use in practice. Secondly, it examines what employees based on their country of origin the management prefers and what implications it has for organizational environment. Moreover, the paper focuses on competences of the international manager and on issues that he may face to.

**Keywords** expatriate, Hofstede, interculturality, human resources, internationalization, management, multinational, corporations

## 1. INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Culture as well as economy are interacting and in reciprocal influencing relationship. The same is the case of organizational and national culture. Companies that plan to operate in more countries have to decide to what extent to localize their organizational culture and managerial practices in order to fit in context of host country and contrary on which markets they should strive for setting of unified standards. Some systems (such as technology) have technical or economic character and therefore they are not connected to home country of the company and influenced by it. In addition there exist activities where character of national culture affects several fields in company; from organizational structure, across leadership management style and their decision making and communication, expectations of roles in firm, to motivation of employees.

As impact of this influence it is possible to observe how national culture is interconnecting with organizational culture. If people in the organization share the same values and norms of behavior, working in such environment is going without problems. However there is mostly tendency of simultaneous operation of more cultures, organizational or cultural ones, and creation of subcultures. That development is naturally caused by different functional divisions or separated units by localization with missing contact [Lukášová and Nový et al., 2004].

### 1.1 International management attitudes

Human resources have an unexceptionable impact on performance and success of the international operations in the multinational corporations (MNCs). Moreover, they are seen as crucial factor of competition. Unfortunately according to research, many MNCs misvalue important and far from easy role of managing human resources [Dowling and Welch, 2004]. While human resource management deals only with one-national employees, source of labour of the international human resource management includes employees from three countries or national categories [Scullion and Collings, 2006].

Companies operating in international environment choose a model of their organizational culture and a degree of national culture's influence on strategies and decision rules of the firm. Three international management attitudes known as the EPG framework have been defined [Perlmutter, 1969]. Lately, the framework has been expanded by the fourth dimension in the international operations' evolution [Heenan and Perlmutter, 1979]. The EPRG framework includes:

- Ethnocentric,
- polycentric,
- geocentric,
- regiocentric.

These approaches determine the relationship between organizational strategy and human resource policies during filling the key vacancies in local subsidiaries of MNC. It represents the foreign companies' way of expanding abroad and transferring employees and human resource management activities [Čuhlová, 2014].

Ethnocentric orientation defines companies that are orientated towards a home country. A typical feature of these companies is to fill the key positions in all subsidiaries by people from parent country, so called expatriates that are sent from headquarters. Positions in the executive, senior positions and positions of specialists are names as the key positions. This strategy is typical for companies that start doing business on new, unknown market and they have a lack of information about local labour market. Increasing number of companies, also from financial reasons, applies a policy of localization which means training and development of local employees with a target to fill the key positions by them [Perlmutter, 1969].

A view of polycentric alias host country oriented state of mind represents another possible orientation that affects the way that the company conducts business abroad. It illustrates that for local nationals is easier to deal with these host nationals because they do not have to become adapted to new culture, they are acquainted with that. Developing people of local nationality for key positions in their own country is the basis of human resource management oriented in this way. This attitude is welcomed between all local employees however job promotion is limited only within a subsidiary. Polycentric oriented companies are usually in regions that are very diverse in culture. Single subsidiaries have to adapt to local conditions and headquarters encourage some level of autonomy of subsidiaries. Application of unified organizational culture could be problematic and therefore plurality and subcultures are present there [Scullion and Collings, 2006].

The autonomy of subsidiaries mentioned above together with common underestimation of language and cultural barriers between a subsidiary and headquarters brings issues in mutual coordination between foreign firms. This may lead up to notional disintegration of MNC in several independent national units that are more loyal to their home country rather than their employer in headquarters. Potential of international environment's synergy is not sufficiently and fully utilized.

Geocentric or transnational strategy is strategy oriented towards the whole world. By influence of headquarters' territory linked up with national standards of foreign subsidiaries, cultures are more brought together and individual specifics are better utilized. Regional parts of international company work effectively and create synergy. Implementation of organizational culture of this kind is neither short-term nor effortless. The key positions in the whole company are filled by the best people based on their work competences and job results without regard to the country of origin and nationality. Employees are required to have experiences in working in multicultural environment in order to be capable to complete tasks in various regions of the world. Despite mentioned difficulties, more and more organizations select this strategy [Tureckiová, 2004].

Regiocentric strategy is the fourth approach of company's international strategy and it completes the EPG framework. This orientation belongs within polycentric and regiocentric strategy. In this case, international human resources are managed according to geographic areas or set regions. Mobility of employees is going on within these regions that are usually stated by natural borders, such as region of Europe, South America, and Middle East [Heenan and Perlmutter, 1979].

The framework EPRG explains a principle of function of international human resource management. In practice, it is usually combination of strategies mentioned above and the choice and application depends on particular situation (e.g. opening new branch, company's aims, or political instability) in specific region. According to research international companies usually go through all these types of orientation, starting with the ethnocentric sight and reaching the geocentric one [Perlmutter, 1969].

## 1.2 Types of staffing strategy in foreign subsidiary and international assignments

International human resource management operating in MNCs has generally three options of employees that can employ. These employees can come from a home country where headquarters of the company is established, secondly there is a host country where foreign subsidiaries are allocated and there is also possibility of another different country that might be a source of human capital as well [Scullion and Collings, 2006]. According to this classification, a staffing strategy of MNCs may include:

- Parent Country Nationals (PCNs),
- Host Country Nationals (HCNs),
- Third Country Nationals (TCNs).

The chosen strategy of the management in the host country influences where the company prefers its employees from. Each of options mentioned above has its advantages and disadvantages for the company, as for headquarters as for the subsidiary. PCNs send out from the headquarters' country and TCNs are usually minority of all employees and their recruitment is linked with substantially higher expenses however they are exactly the resource of human capital that is very valuable and their management is the most demanding [Čuhlová, 2014].

Expatriates are skilled workers sent abroad by their home country headquarters to a foreign subsidiary. Besides their assignment by the employer, expatriates may also initiate the relocation by themselves, so called self-initiated expatriates [Harzing, 2001]. There are several reasons and advantages of their utilization. Besides the role during entering into new markets, transferring know-how and job competences of the company since they are cognizant of aims, policies and practices of headquarters, expatriate operates as a deputy to the central office in terms of direct control, establishing contacts, communication networks between headquarters and subsidiary, simplification of mergers and acquisitions. A lack of home professionals with experience of doing business in West way caused a dominance of expatriates in the Czech Republic especially in the time of economics' transformation in the first half of 90s [Dvořáková et al., 2012].

Regiocentric attitude to the human resource management is oriented on hiring a person from the third country that is considered to be the best professional for the position. The term "the third country" means that employee is not from headquarters' country nor from country where he is going to work so they can utilize the perspective of a foreigner [Harzing and Pinnington, 2014]. Their hiring is usually less costly and assimilation is easier because TCNs commonly come from the same region where a subsidiary is allocated therefore these people are aware of local cultural customs and business manners. Adaptability and willingness to global mobility is their big asset [Schniederjans, 1998]. TCNs are possible named as international managers and they often create multicultural teams that prove that company aims to operate in global scale with competent and skilled professionals.

During decision making about TCNs' positioning, it is necessary to consider bad acceptance of certain nationality as a company's representation in a specific social system. It may be for instance an unacceptability of women on some job positions, in Japanese social system or from the reason of still existing religious gender prejudices in Arabic world, or historical enmity between some national groups [Dvořáková et al., 2012].

Another option of staffing in international environment is called inpatriation. This term describes an alternative form of international assignment when people from subsidiaries (HCNs) or TCNs are transferred into the home country of MNC for some period of time. While working at headquarters, inpatriates socialize with the firm's aims, norms, organizational culture and they develop a network between headquarters and subsidiary that facilitates the cooperation. Since they are already familiarized with the host country environment, they are able to understand the complex situations easily [Harzing and Pinnington, 2014]. Benefits from inpatriation are not only creations of link between headquarters and subsidiary and facilitation of the knowledge transfer in both directions but also gaining invaluable multicultural perspective. In order to compare them to expatriates, inpatriates need to adjust to the culture of

headquarters' origin country and to the headquarters' corporate culture whereas expatriates need to adapt only to the host country culture where they are transferred to run subsidiaries [Scullion and Collins, 2006].

As a response to the increasing power of globalization, companies have started to offer more options of relocation. One of the widespread alternatives of expatriation that is becoming popular are short and frequent business trips abroad without a need of physical moving with the family [Harzing and Pinnington, 2014].

While international company can hire PCNs, TCNs or only few HCNs for managerial positions in subsidiary, they need to engage labor from local resources which is very suitable for economic situation in host country. This is also one of the reasons why governments use investment incentives to attract foreign investors. Moreover, the training is necessary for these non-managerial employees as well as for managers and good trainer should select the adequate method according local culture.

### 1.3 Other factors influencing the choice

In compliance with analysis, elements that can and do impact choosing HCNs or PCNs for key positions in foreign subsidiaries are not many. Firstly, uncertainty avoidance may be mentioned [Hofstede, 1980]. It is suggested that firms with headquarters from country with high score on uncertainty avoidance prefer to hire PCNs for the managerial positions in subsidiaries [Harzing and Pinnington, 2014]. These nationals want to keep operations under control and to avoid unrecognized situations. Hence they see PCNs as more worthy. The same situation occurs when cultural distance between home and host country is high. In order to prevent misunderstandings, they will rather transfer their managers from parent country of organization. From the sight of location of subsidiary (host country) there is a decisive level of education and competences of HCNs. Where the level is low and knowledge is not generic and therefore host country's staff could be easily trained, then presence of expatriates is again welcomed.

Different situation happens if the living costs in subsidiary's country are lower. In that case, executives are more likely to employ HCNs because they will not expect additional compensation. There also exist some characteristics of subsidiary that must be taken into consideration; e.g. age and size of subsidiary, rate of performance, majority ownership. In terms of age there is assumed that in newly established subsidiaries, a tendency of headquarters is to use PCNs since their presence can guarantee the right policy of operations. The decision can be made by a simply factor as an availability of managers from headquarters disposed to work abroad [Mead, 2009]. A company should also take into consideration employee preferences. We could suppose that employees will choose to work with local managers from country of subsidiary but it is not always this case.

In overall result of relevant study [Harzing, 2001]. PCNs are represented by 31 % of the senior managers in subsidiaries of MNCs in Europe. However, it examined differences within European countries. Diversification of industries is another framework of preference. More frequent employment of HCNs can be found in food industry, electronics and advertising where understanding of local market is important. Greater probability of using PCNs is in subsidiaries that focus on banking services or security and commodity brokers.

Costs are an economic factor of staffing that should not be forgotten to mention. Difficult process of recruitment and selection is costly in all cases but expatriates may need training not only in technical and

management area but cross-cultural and language training (last two sometimes even for their families) and also compensation if the standard of living in subsidiary's country is not the same. Relocation can be very expensive option for the company [Mead, 2009].

## 2. INTERNATIONAL MANAGER

As many business processes have changed due to the globalization, types of assignments abroad and position of international managers has also widened. Organizations considering their strategy often use the acronym VUCA that describes challenges of working environment for managers. These challenges apply to the international assignments much more [Comfort and Franklin, 2014]:

- Volatility – Unexpected and unstable situations, increasing rate of change.
- Uncertainty – The lack of predictability and less clarity about future.
- Complexity – There are many interconnected forces and variables surrounding the organization.
- Ambiguity – Causal relationships are completely unclear and without any precedents, high potential for misreads.

Although some companies take into account only technical competencies, various research results agree on key competencies that candidate for international manager should possess. These competencies are generally the same as for non-foreign tasks but the person should have also some additional characteristics. Together with technical and managerial skills, personal motives, mainly self-motivation, are crucial factors of expatriation [Mead, 2009]. Expatriate should be able to take measure of stress, new unknown situations and to choose the proper manners under these certain circumstances. The "social skills" belong to the most relevant attributes since they help to understand people and their culture and to form relationships [Fontaine, 1989]. In order to succeed in international assignment, candidates should be culture-sensitive with no prejudice and have ability to manage ethical and cultural differences [Armstrong, 2006].

Adaptability, flexibility and resilience are among other desirable characteristics [Mead, 2009, Armstrong, 2006]. These characteristics are mostly the same for managers of HCNs and TCNs. Local managers should certainly have linguistic ability and know the language spoken in the home country of company. Based on researches, more and more emphasis is placed to expatriates' family because this is often reason for the failure of assignees and therefore companies have to bear this factor in mind [Harzing and Pinnington, 2014]. According to the survey, family adjustment is seen as a reason for failure in 61 % of respondents. However only 76 % of family members were accompanying the assignees in 2014 compared to 90 % of family members in 2012 [Cartus, 2014].

The practical example of recruiting employees for public sector organizations operating internationally and dealing with foreigners are ministries of foreign affairs. Applicants for a job in the Ministry of Foreign Affairs of the Czech Republic have to meet all following requirements. Without exception what position they are applying for, they should have Czech citizenship, integrity, health condition for working abroad, psychical immunity, and willingness of verification by National Security Authority. Next necessary requirement is given to knowledge of languages. Especially diplomats are supposed to know English and second foreign languages of the defined level according to criteria of Ministry of Education, Youth and Sports. Beyond demanded education of University Master degree, applicants should be younger than 32 years, have analytic capability and non-conflicting behavior and be

able to work in smaller group [Ministry of Foreign Affairs of the Czech Republic, 2015].

An older study observes future advantages from companies' extension of their localization and usage of employees with different cultural background. It mentions higher inventiveness, ability of empathy in communication with foreign business partners and ability to cope up with different circumstances and changes of environment. Possibility to use capable manpower not only from local resources and make best of diversity is very beneficial point for the organization [Adler, 1983]. While some companies can see cultural diversity as an opportunity, others' strategy assumes these differences as a threat or they can even ignore them [Schneider and Barsoux, 2003].

### 3. CONCLUSION

Necessity to occupy with intercultural aspects of business activities is made by their globalization and together with integration trends it brings intensification of intercultural relationships. This is also one of the main impacts of presence of MNCs and foreign direct investment in the Czech Republic on labor market that is increasingly internationalized.

By contribution of foreign companies, skilled foreigners usually come to the Czech Republic to hold management and leadership positions. The process of market internationalization is naturally not held only by establishing subsidiaries of MNCs but there is also impact of increasing trend of migration that is possible to observe in global scope. The influence of growing number of foreign employees coming to the Czech Republic has indisputable effect on single regions in different levels, especially on districts where these foreigners has tendency to concentrate.

Companies in international environment choose a model of their organizational culture together with a volume of impact of single national cultures inside. At the same time, it also influences where the management of company prefers their employees from. Each of three options of foreign subsidiary staffing; expatriates from home country, employees from host country or employees with origin of the third nationality; has own justification and it should be in harmony with strategy that management of company applies. According to research, international companies usually go through all types of orientation.

The paper also presents desired characteristics and competencies that a candidate for position of international manager should possess in order to be successful in meeting challenges of foreign multinational assignment. As paper concludes, the main mostly cited ideal competencies of international manager are: adaptability, flexibility and social skills as cultural empathy.

Factors mentioned above mean increasing attention of organizations for country differences in the international environment. Moreover, corporations that aim to expand to foreign countries are meeting people with different communication, habits and mainly dissimilar way of thinking and doing. This all may bring some difficulties that can be decisive for success of the whole company. That is a reason why knowledge of other cultures is becoming essential. A dominant focus of the international management is on national cultural differences [Hofstede, 2001]. There is also growing importance of more detail research of intercultural specifics and consequent implication of the knowledge into practice of international human resource management. Thanks to acknowledgement of existence of cultural differences, it is possible not only their understanding but mainly utilization of its synergic potential.

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