

# Cultural Differences and the Role of International Human Resource Management for Sustainable Growth of Multinational Companies: A Critical Review

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## ABSTRACT:

In today's business environment, due to increasing globalization the companies are adopting more global business orientations and it creates many cultural adaptation issues. For the managers of Multinational Companies who are operating in different countries cross cultural practices become necessary to maintain the business process. Human Resource Management covers all management decisions and actions that effect the relation between organization and employees. The new manager introduces new technologies, relocate operations arrange tasks in a new plant and reward personnel and this will affect employees. Involvement of employees affects on their work and how they trust the manager. Managers at MNCs are getting more and more interested in how HRM is managed in different regions due to increasing competition and if managers can get a greater understanding of cultures when managing employees with different backgrounds and cultures it can make them more effective.

The purpose of this paper is to provide a better understanding of the **International Human Resource Management** issues in India. Major IHRM problems within a cross cultural circumstance and ways of overcoming them are also discussed in this paper.

**Keywords:** *International Human Resource Management, MNCs, Cultural Diversity, Cross- Cultural Communication*

## 1. Introduction

During the 21<sup>st</sup> century, due to increasing globalization the companies are adopting more global business directions. In this globalization era one of the most significant trends affecting the employees is that of increasing cultural diversity. The national boundaries are distorted and in business environment, the national borders are open to businesses than before. This results in increasing acceptance of ideas and products from other countries and greater willingness to engage in joint businesses between companies. Number of *Multinational Companies* (MNCs) entered in India after globalization to earn revenues. The availability of human resources in India is one of the major aspects for MNCs to set up their plant in India.

The rise of multinational companies and increased global diversification by even small companies has resulted in people of diverse backgrounds and cultures working together in the same office or for the same organization. Conflict in such situations is predictable, but understanding the diversity issues can help companies implement programs designed to keep conflict at a minimum and to take full advantage of the many benefits which such diversity brings to an organization. Key to understanding how diversity is managed in multinational organizations understands the concept of corporate culture, diversity programs and their use to minimize conflict among employees, and the unique problems that employees working overseas encounter.

*Cultural diversity* means variety, and embracing workplace, diversity means welcoming the full mixture of society: religions, different races, cultures, genders, sexual orientations, education, ages, abilities, beliefs—any traits that distinguishes groups of people. Offer equal opportunities to all people, regardless of these factors, is just the right thing to do, and part of being a responsible corporate citizen. But diversity also supports and strengthens business. Welcoming a wide range of people into the company opens up a bigger pool from which to find the best-qualified candidates. And diverse working teams bring together different ideas and perspectives, challenging one another for the best results. Moreover, in this global economy, having several different groups represented within the company helps make its products and services more appealing to customers who are members of those same groups. Beside these advantages there are also some disadvantages of cultural diversity. Cultural diversity is a twin edged sword i.e.

if managed properly it can help an organization to increase its performance, on the divergent if neglected cultural diversity can decrease the performance of the managers.

## 2. MNCs in India

The post financial liberation era in India has experienced huge arrival of '**Multinational Companies in India**' and improved India's economy.

Although, majority of these companies are of American origin but it did not take too long for other nations to realize the huge potential that India Inc offers. 'MNCs in India' represents a diversified portfolio of companies representing different nations. It is well documented that American companies accounts for around 37% of the turnover of the top 20 firms operating in India. But, the scenario for 'MNC in India' has changed a lot in recent years, since more and more firms from European Union like Britain, Italy, France, Germany, Netherlands, Finland, Belgium etc have outsourced their work to India. Finnish mobile handset manufacturing giant Nokia has the second largest base in India. British Petroleum and Vodafone (to start operation soon) represent the British. A host of automobile companies like Fiat, Ford Motors, Piaggio etc from Italy have opened shop in India with R&D wing attached. French Heavy Engineering major Alstom and Pharma major Sanofi Aventis is one of the earliest entrants in the scene and is expanding very fast. Oil companies, Infrastructure builders from Middle East are also flocking in India to catch the boom. South Korean electronics giants Samsung and LG Electronics and small and mid-segment car major Hyundai Motors are doing excellent business and using India as a hub for global delivery. Japan is also not far behind with host of electronics and automobiles shops. Companies like Singtel of Singapore and Malaysian giant Salem Group are showing huge interest for investment.

In spite of the huge growth India have some bottlenecks, like -

- Irrational policies (tax structure and trade barriers).
- Low invest in infrastructure - physical and information technology.
- Slow reforms (political reforms to improve stability, privatization and deregulation, labor reforms).

**MNCs** Operating in India cite India's highly educated workforce, management talent, rule of law, transparency, cultural affinity, and regulatory environment as more favorable than others. Moreover, they acknowledged, India's leadership in IT, business processing, and R&D investments. '*MNCs in India*' are confident on -

- India's market potential.
- Labor competitiveness.
- Macro-economic stability.
- FDI attractiveness.

## 3. Human Resource Management and International HRM

Human resource management practices play a vital role in managing employee issues. HRM is a responsibility of all those who manage people as well as being a description of the work of toughs who are employed as specialists. It is that part of management which is concerned with people at work and their relationships within an enterprise. It applies not only to industries and commerce but to all fields of employment.

HRM covers all management decisions and actions. Planning, recruitment, selection, training, appraising, compensating are the functions of HRM which helps to select right people at right place at right time for appropriate job. In MNCs, international human resource management practices are required which are specifically deals with how employees should be managed in cultural diversity.

International human resource management (IHRM) is the process of procuring, allocating, and effectively utilising human resources in a multinational corporation.

In global firms human resource managers must achieve two somewhat conflicting strategic objectives. First, they must integrate human resource policies and practices across a number of subsidiaries in different countries so that overall corporate objectives can be achieved. At the same time, the approach to HRM must be sufficiently flexible to allow for significant differences in the type of HR policies and practices that are most effective in different business and cultural settings. This problem of balancing integration (control and coordination) and differentiation (flexibility in policies and practices at the local subsidiary level) have long been acknowledged as common dilemmas facing HR

and other functional managers in global corporations. Although some argue that IHRM is not unlike HRM in a domestic setting, others point out that there are significant differences. Specifically compared with domestic HRM, IHRM

1. includes more functions,
2. has more diverse functions,
3. involves constantly changing perceptions,
4. requires more involvement in employees' personal lives,
5. is influenced by more external sources, and
6. involves a greater level of risk than typical domestic HRM.

International HR managers must deal with issues as varied as international taxation; international relocation and orientation; various other administrative services for expatriates; selecting, training and appraising local and international employees; and managing relations with host governments in a number of countries around the world, beside this the major issue to manage people in cross cultural context.

### 3.1 IHRM Problems facing by MNCs

MNCs are the place where the employees perform their job in cross cultural environment. In India, people are more attached with their culture. For Indians it is very difficult to mold themselves according to others culture. Consequence, misunderstanding create which affect the performance and indirectly on profit. In such circumstances management need for cross-cultural management skills.

When two different cultures come together and perform business operations following problems may occurs,

- **Cross-culture Communication**-These problem can be related to different aspect of communication. MNCs with less experiences international co-operations encounter problems of language deficiency in communication.

- **Cross-culture Conflicts**- The main reason behind cross-culture conflict are related to the actual task performance.

- **Differences in employee motivation**-MNCs may face problems related to motivation of employees due to cultural difference.

- **Language differences**-One of the potential for problems is *Language* which is often the least difficult barrier to breach. Language differences, results the different way of seeing things and an inability, or unwillingness, to see what the other person is seeing that causes the difficulties.

- **Misunderstanding**-*'Misunderstanding is the norm'*, When an employee work with other cultures, it's easy to be influenced by common stereotypes, misconceptions and prejudices about his/her new colleagues. Without realizing it, other carries those misconceptions and stereotypes into meetings, conferences, trainings or even social gatherings that can make communication difficult and hard work.

### 3.2 Solutions for preventing Cross culture issues

- MNCs should try to clearly identify the nature and implications of national culture diversities within MNCs working.

- The role of top leaders plays a vital role in creating fairer employment practices and benefits for everyone by taking initiatives for managing diversity. Fairness and enhanced job satisfaction contribute to increased productivity and superior client service.

- In most of the MNCs diversity initiatives were often weakly conceptualized, lacked specificity, and were not linked to strategic organizational plans. Today's leaders should realize that in order to be effectual, successful culture diversity planning must be linked with and provide support for strategic business objectives and operational decisions.

- Leaders need to be clearly and concisely conveyed the diversity vision, mission and strategic direction to increase awareness and promote open dialog which will help to remove cross cultural barriers.

- MNCs should be establish a basis for building knowledge and awareness on culture diversities and an example of explaining and managing the expatriation issues will be given in more details;

- MNCs should be aware about the importance of managing cultural diversity. MNCs should be set a framework for developing a high performing team, where the cultural issues will be thought over.
- At the time of international or global merger with another company, the authorities should jointly sign a cross cultural diversity statement to keep cross cultural diversity at the forefront and the separate HR department should be placed to handle HR issues in that country in which the business operation takes place which will help to create a culture that uses diversity to its competitive advantage.
- MNCs have to establish formal mentoring programs. Mentors will help new employees to adapt organizational culture and also will help organisation to assimilate new employees into the organizational culture.
- Management of MNCs should have to take care that there should not be any communication gap between employees and management. MNCs should provide communication and language training to their employee to avoid miscommunication.
- Creation of third culture is one of the best precautions to prevent cross-cultural communication problem. It helps to bridge the gap between cultural diversity.
- MNCs should provide cross-cultural training for their employee to cease cross-cultural problems.
- MNCs should recognize the connection between the employees' personal lives and their productivity on the job and should develop different programs responsive to the cross-cultural problems or diverse needs of its workforce which employees many time faces due to migration.

#### 4. Conclusion

In this paper it has been stressed that cultural differences are a reality in MNCs. In our own culture, we are all individuals with a host of differences; yet there are so many similarities that the differences can seem negligible. There appears to be more in common than may actually be so, but somehow we absorb and adjust to the differences. When we are abroad, or even in our own home territory working with others from abroad, the differences are far more apparent and it becomes much harder to see the similarities. But to achieve the success one should neglect the dissimilarities and should try to match positive things together to create strength because "*unity is strength*". Whereas considering MNCs, Multinational companies have the great advantage of working in and with different cultures to make their products and services accessible to a far wider community. The impetus for reaching beyond their own borders makes commercial sense.

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