WHAT IS MERCANTILISM

Mercantilism is an economic policy whereby a nation aims to maximize exports and minimize the imports. Originally adopted by European nations between 1500 and 1800, mercantilist nations implemented policies such as **tariffs** and **subsidies** in order to boost exports and make international imports more expensive.
Mercantilism originates from the term 'mercantile', which refers to merchants and trade. By extension, mercantilism is the philosophy and belief that trade with other nations should be regulated through what is now known as '**protectionism**'.

HISTORY OF MERCHANTILISM

Mercantilism was a popular economic school of thought in Europe between the 16th and 18th centuries, but it wasn't officially named until Adam Smith released his book 'A Wealth of Nations' in 1776. He highlighted how European powers aimed to restrict imports, whilst actively encouraging exports. The aim was to bring gold and silver into the country and thereby stimulate domestic employment.

This was a period of religious and commercial warfare, but also the Age of Discovery, which saw the British, French, and Spanish empires expand rapidly across the world. As empires expanded, gold became more and more important. First of all, gold was needed to fund the empires military – particularly at sea. Second of all, gold was seen increasingly as a sign of wealth and power. The more gold a nation had, the richer and more successful it was.

As colonies grew, it meant there was a more interconnected system of trade. For example, Britain had links to Australia, India, Canada, and significant parts of Africa. Similarly, France had colonies in Africa, North America, and parts of Asia. The world was becoming interconnected and each imperialist had an incentive to keep trade going between the colonies and itself.

The colonies were important to France, Britain, and Spain, which had little in the way of raw materials. For instance, Britain relied on its colonies to provide goods such as sugar, tobacco, tropical fruits, and gold. The idea was that a nation's colony would provide raw materials that would then be converted into final goods and sold at a higher price. This would then provide a favourable balance of trade to the mother country – enhancing its gold stock.

By controlling the supply of goods, but more importantly, gold, between trading destinations, the mother country was able to ensure it enhanced its wealth. At the same time, it prevented other colonies from procuring the same goods. So the colonists controlled where the goods are going and where they are coming – meaning control of the full supply chain between nations.

1. Accumulation of Gold

Gold was associated with wealth and power. It not only allowed nations to pay for soldiers and expand the empire but also for its symbolism of wealth. Nations saw gold as protection against invasion and a lack of gold would inevitably lead to the nation's demise.

Gold mines were in short supply in colonist nations such as Great Britain, France, and Spain, so they relied on their colonist nations to provide its supply. By procuring raw materials from the colonies, it would convert them to final goods and sell them back for a profit in gold.

2. Belief that Wealth is Static

At the heart of mercantilism was the belief that wealth was static. As gold was rare, it was seen that there is only a limited supply. So importing more from one nation than it exported meant it was losing wealth. In other words, one nation could only benefit at another's expense.

3. Large Population

According to mercantilist theory, a large population was necessary in order to supply labour, markets, and an army to the nation. The larger the nation, the more wealth in could accumulate, and the bigger its army. So larger populations were associated with an increase in a nation's prosperity.

4. Positive Balance of Trade

Mercantilists believed that by exporting more than they imported, it would be able to acquire a net accumulation of wealth from other nations. However, by contrast, if the nation brought more goods from abroad, it was essentially sending gold, wealth, and power abroad.

5. Reliance on Colonies

Colonists relied on their colonies not only for raw materials but to ensure a net transfer of wealth and gold. In the long-term, this helped finance further expansion across the globe. More importantly, it helped the mother nation become self-reliant.

6. State Monopolies

The state had a monopoly in the fact that it was the only nation able to supply to its colonies – so it was only able to import or export to the mother country. This was because its mother

nations relied on it for raw materials, whereby they were converted into final goods and sold back at a profit. The result was a net transfer in gold from the colonies, to the colonists.

7. Trade Barriers

Many empires enforced a ban on trade between its colonists, as well as that of other empires. For instance, when Britain had control over India, it was banned from trading with other colonies such as Australia or Canada. At the same time, many nations imposed tariffs to make imports more expensive and uncompetitive.

The aim was to suppress imports coming into the country, without completely eliminating the goods that it needs. However, nations managed to secure key resources from their colonies in order to ensure self-sufficiency.

MERCANTILISM EXAMPLES

Mercantilism is a form of protectionism that was practiced throughout the Age of Discovery (16th – 18th Centuries). It became popular among the seafaring nations of Europe as it discovered the other nations of the world. Notable examples include Spain, Britain, France, and Portugal.

British Navigation Act 1651

In 1651, the British government, led by Oliver Cromwell, introduced a legislation that made it illegal for any foreign ship to carry goods from or to any of its colonies. All trade was to be conducted by a British ship, with a British owner, master, and majority crew.

Colbertism

Colbertism was named after Jean-Baptist Colbert, First Minister of State in France between 1661 and 1683. It refers to the number of mercantilist policies implemented during his time in office. He introduced tariffs, encouraged public works programs, and set up the France merchant navy – in the bid to expand exports abroad.

East India Company

In 1600, the British government created the 'East India Company' which was a state-sponsored monopoly looking to take advantage of the Asian markets – particularly the East Indian spice

trade. Whilst privately owned, it was granted monopoly powers in the market until the British government revoked these in 1813.

Since the company's inception and its eventual decline, it paid the government in exchange for sole rights to trade with India. This not only brought gold back to Britain, but also helped establish a strong and permanent trade route between Britain and her colonies.

Arbitristas of Spain

The arbitristas were a group of reformists in Spain who were concerned about the decline of their country. Their primary concern was the growing dependence on Spain's colonies to provide her with the necessary resources. The Spanish people were suffering and domestic business was suffering due to imports. In turn, the arbitristas suggested stricter regulations on imports and tax subsidies to agriculture workers. The aim was to boost domestic business whilst exploiting the nation's colonies through its exports.

CRITICISMS OF MERCANTILISM

At the heart of mercantilism is the idea that wealth is centered around the accumulation of gold and other precious metals. Today, we consider the wealth of a nation to derive from its GDP, or economic output. This is because true wealth is based on what the land and labour are producing – not how much gold it has. Gold is unable to cure hunger unless it is exchanged for food. However, mercantilists prefer to be self-sufficient and refuse to import. Yet some nations are unable to grow enough to feed themselves, which is exactly what happened in Spain. Although it had a high level of gold, the majority of its population went hungry.

A nation that is unable to provide basic necessities for itself can hardly be considered wealthy. At the same time, the monopolies that the state granted prevented domestic firms from competition. By placing high tariffs and restrictions on imports, domestic firms are largely insulated from competitive pressures. These pressures would create an incentive for firms to improve the efficiency of production in order to produce at a lower price.

The attack against imports was based on the principle that wealth is set and cannot increase. In other words, one nation's loss is another's gain. Yet this assumption is false. The reason was highlighted by Adam Smith in his book 'A Wealth of Nations'. In this book, Smith identifies 'comparative advantage' – whereby one nation is comparatively more efficient at making Product A, whilst another country is better at making Product B. By focusing on the product which the nation is most efficient at making – both nations will obtain a higher output, and therefore wealth.

INTERNATIONAL PRODUCT LIFE CYCLE THEORY

Product Life Cycle Theory of International Trade

Raymond Vernon, a Harvard Business School professor, developed the product life cycle theory in the 1960s. Products come into the market and steadily depart all over again. According to Raymond Vernon, each manufactured goods has a definite life cycle that begins with its expansion and ends with its decline. Product Life Cycle is defined as, “the sequence through which every product goes through from introduction to removal or ultimate downfall.”

The theory, originating in the field of marketing, stated that a Product life cycle has three distinct stages:

- New product,
- A maturing product, and
- Standardized product.

(A) New product

In this stage, a firm in a developed or developing country will innovate or manufacture a fresh product for their customers. The market for these manufactured goods will be little and sales will be comparatively small as a result. The firm’s marketing executives have to strongly observe buyer reactions to ensure that the new product satisfies customer needs. Characteristics of this stage include:

- Vast promotional costs are compulsory to enhance the consciousness of customers.
- A marketer has to undertake procedural and manufacture troubles.
- The sale is low and growing at a lesser rate.
- There is a loss or an insignificant profit.

(B) Maturity Stage

In the maturity stage of the Product Life Cycle, the manufactured goods are generally known and are bought by many customers. The innovating firm builds new factories to enlarge its competence and convince home and overseas demand for the products. Characteristics of this stage include:

- Sales enlarge at a decreasing rate.
- Profits initiate to decline.
- Marginal competitors put down the market.

- Customer preservation is given more prominence.

(C) Standardized product stage

The market for manufactured goods stabilizes. The product becomes more of a commodity, and firms are pressured to lesser their industrialized costs as much as probable by shifting production to facilities in countries with small labor costs. Characteristics of this stage include:

- Sales reduce quickly.
- Profits reduce more quickly than sales.
- Steadily, the company prefers to move resources to new products.
- Most of the sellers remove from the market.

The decline stage – At some point, however, the market becomes saturated and the product is no longer sold and becomes unpopular.

TVs, calculators and mobile phones are the most general examples of products which undergo the three-phase cycle. Although products which endure this life-cycle may be found, the legality of this theory is very limited.

Assumption

The theory assumed that production of the new product will occur completely in the home country of its innovation. In the 1960s this was a useful theory to explain the manufacturing success of the United States. US manufacturing was the globally dominant producer in many industries after World War II.

This theory assumed the product progresses through these stages, and the production will happen in the country it was invented. However, this theory doesn't explain current international trade patterns when it comes to manufacturing and innovation around the world.

It has also been used to describe how the personal computer (PC) went through its product cycle. The PC was a new product in the 1970s and developed into a mature product during the 1980s and 1990s. Today, the PC is in the standardized product stage, and the majority of the manufacturing and production process is done in low-cost countries in Asia and Mexico.

The product life cycle theory has been less able to explain current trade patterns where innovation and manufacturing occur around the world. For example, global companies even conduct research and development in developing markets where highly skilled labor and facilities are usually cheaper. Even though

research and development are typically associated with the first or new product stage and therefore completed in the home country, these developing or emerging-market countries, such as India and China offer, both highly skilled labor and new research facilities at a substantial cost advantage for global firms.

INTERNATIONAL BUSINESS STRATEGY

The first strategy: International strategy

A successful international strategy focuses on a single point of operation while exporting products and services around the world. As such, it ranks low on both global integration and local responsiveness.

An international strategy is often the first strategy companies use when they expand to secondary markets, and that's because it's the most accessible of the four. It's essentially an extension of your domestic strategy, operating with a central or head office in your home market and exporting your products to target markets.

The major advantage of this approach is that it's a quick way to test out the global appeal of your product without making significant investments in infrastructure or staffing in other markets.

Choosing this strategy allows you to:

- Build a standardized, immediately recognizable brand
- Consolidate management processes and lower costs
- Simplify your product portfolio based on what performs well globally

If you're unsure how your products will respond to different markets or just want to test it out, following the export model is a safe option. However, an international strategy does have its drawbacks, which is why many companies use an international strategy to start with before moving to one of the other three strategies. We'll explain more below.

With an export-driven strategy, you're stuck paying higher taxes and tariffs every time you export, and it can be challenging to coordinate supply chains and customer service with only offices in your home market. And just because you're dipping your toe into a global market, you are not off the hook for translation. Your customers still need to be able to understand what you offer and how to pay for it regardless of the level of global integration you're pursuing.

Regardless of these challenges, an international strategy is by far the most popular for businesses, especially as they take their first steps toward globalization and international expansion to different countries.

The other most popular type of business that employs this strategy is regional or luxury brands where the location of origin matters. Think about some of the most iconic food and drink in the world — champagne from France or caviar from Russia:

1. **Moet & Chandon**: The iconic champagne has been on the market since 1842 (Napoleon himself was a fan). Now, it remains one of the most popular choices in a $700 million market, boasting a celebrity-packed history from Napoleon to the Oscars. Every bottle is grown, produced, and shipped from 2,000 acres of vineyards across 200 crus in France.
2. **Red Bull**: Austrian company Red Bull started as a small exporting manufacturer in 1987 when their team hit on a brilliant global marketing strategy: giving out free samples to adrenaline junkies in the United States at skateboarding and mountain biking exhibitions. While today's model is more transnational in nature, the leading energy drink makes more than $2 billion in sales every year.
3. **Victoria's Secret**: Though the global brand — and ever-present 2000s lingerie chain — has manufacturers from around the world, the company relies primarily on an export model and opening stores in smaller locations like malls and airports as their point of entry with no changes in sizes or styles for women anywhere in the world looking to figure out "the secret."

The most local responsiveness: Multidomestic strategy

A multi-domestic strategy ranks high on local responsiveness and low on global integration, making it the "local-first" approach of the four strategies. Companies that employ a multi-domestic strategy change their product, messaging, go-to-market, and customer support (among other things) based on each market they enter.

The greatest advantage to this is a highly specialized, localized product that directly matches customer tastes and preferences, with employees on the ground in that market that understand the cultural nuances. Choosing this strategy allows you to:

- Control a portfolio of local subsidiaries that you can scale up and down based on performance
- Easily access local competitive advantages, such as labor, shipping lanes, and natural resources
- Gain a stronger foothold in a local market more quickly

Essentially, multidomestic companies operate with one overarching parent company and a selection of separate companies within each country (sometimes called Greenfield Investments).

This model doesn't come without challenges, however, as the success of each "domestic" unit requires a deep understanding of that market and resources to spin up completely separate operations in that market. You may have duplicate efforts and siloes across each company, and fundamentally changing your offerings every time you enter a new market can take a lot of up-front time and resources. And with a multi-domestic approach, a strong localization program is the most crucial element (we can help with that!)

Done right, multi-domestic companies can be very successful. In fact, some of the most successful food, wellness, retail, and beverage companies in the world operate this way:

- **Johnson & Johnson**: Band-Aids, Neutrogena, Splenda, and Tylenol all fall under the Johnson & Johnson umbrella. Operating hundreds of brands in over 60 countries, they're a household name all over the world.
- **Procter & Gamble**: Chances are, if a product in your local pharmacy isn't made by Johnson & Johnson, it's owned by Procter & Gamble. Billion-dollar brands like Pampers, Downy, Gillette, Always, and Olay are owned by Procter & Gamble. Their portfolio of over 250 brands operates in 140 countries.
- **Nestlé**: Gerber, Purina, Perrier, Lean Cuisine, Häagen-Dazs, and Toll House are all owned by Swiss-owned candy company Nestlé as part of their portfolio of more than 2000 companies in the food and beverage space. They sell in over 186 countries, each with its selection of brands curated to match local preferences.

The most global integration: Global strategy

On the flip side of the global integration/local responsiveness spectrum is operating with a global strategy. This approach focuses on standardization as much as possible, including colors, messaging, products, and operations, so they can build repeatable, scalable processes no matter which foreign market they operate in. That means having one brand, one suite of products, and one message from a central headquarters.

The advantage of this is that pursuing this strategy gives you an instantly recognizable global brand with a step-by-step path toward global market penetration. Choosing this strategy allows you to:

- Harness economies of scale with efficient processes and operations
- Streamline product development with one product line and minimal changes by market

However, the greatest challenge with global strategy is knowing how much standardization to pursue. Even top global brands still invest in some level of localization and adaptation to local markets — just not so much that it infringes on their scale and efficiency. You should expect to invest in a solid localization process so that your customers can interact with your website, mobile app, packaging, and more in their home language.

Because this model requires a strong global presence to start with, it's often the end-game for international businesses, moving through the other models before achieving a truly global brand. As a company, you're taking a gamble that your product has so much universal appeal that it will create demand regardless of market tastes and preferences — which is also why so few companies truly achieve this status:

- **Amazon**: One of the largest companies in the world, Amazon operates in 58 countries and reaches more than a billion people online every day. The leading e-commerce company in every country except China (where Alibaba is #1), you can see Amazon's ever-present "smile" on trucks and packages — and enjoy same-day shipping — pretty much everywhere.
- **Apple**: Since releasing the original Mac in 1984, Apple rose to dominance for its sleek lines, clean interface, and easy-to-use software. Globally, Apple's technology is the same (with a few minor changes) wherever you go. Considered one of the biggest global brands today, Apple operates in over 175 countries around the world with more than 100,000 employees.

- **Disney**: It's a small world, after all. Whether you're visiting parks in Shanghai or California, you'll be able to experience the same magic. For movies, merchandise, and TV shows, Disney's team works to make sure it's as globally inclusive as possible with only minor changes if needed based on audience feedback (say, for the title of a film.)

The best of both: Transnational strategy

While a global strategy may seem like the end-game, for many brands, the best choice is a transnational strategy, which splits the difference in terms of local responsiveness and global integration.

Transnational businesses operate with a central or head office in one country (the global integration part) and also employ local subsidiaries in international markets (the local responsiveness part). That way, they get the best of both worlds: one overarching brand that provides a cohesive structure and efficient center of operations while optimizing for local market preferences and tastes as needed. Choosing this strategy allows you to:

- Create a standardized brand that's immediately recognizable but accommodate differences in market preferences
- Centralize and streamline operations, getting the advantage from economies of scale
- Be able to flex between a high-level strategic overview of investments without losing customer-centricity with local markets

Of the four models, transnational has the most variation. Some businesses give more autonomy to their local branches than others. Balancing corporate decisions vs. local decisions remains one of the biggest challenges for global companies, which cascades across all aspects of the business, from staffing to marketing decisions. Some choose to localize on an in-depth level, changing products and operations (like a multidomestic model), while others standardize more rather than less (like a globalization model).

Keeping local customers in mind, rather than just selling to foreign markets, is what makes transnational strategies so successful, like these companies:

- **McDonald's** has a global scale with 36,000 fast food locations in more than 100 different countries worldwide. They adapt their menu and prices based on the market, from a McSpicy Paneer in India (fried paneer cheese, tandoori sauce, and lettuce) or poutine (french fries with gravy) in Canada.

- **Nike** sneakers and sports apparel can be found in over 170 countries, but they change their network of influential sports celebrities and marketing strategy based on the market. Depending on what sports matter, you can hear from soccer phenom Cristiano Ronaldo to basketball star LeBron James and tennis champion Rafael Nadal.
- **Coca-Cola**'s localization approach means you can order a "Coke," a "Cola," or a "Coca" (which have a slightly different formula) depending on the market. What makes this work across their 200+ countries is universal marketing messages of happiness, enjoyment, and sharing. Combining this standardization with variations in local flavors and packaging makes them successful.

INTERNATIONAL HUMAN RESOURCE MANAGEMENT

An organization gains competitive edge when it has an efficient pool of employees. In addition, we know that a large number of organizations conduct their businesses across national boundaries. Therefore, there is an increasing need of managing global employees. The effective management of global employees is a major determinant for the success or failure in international ventures. It has become a challenge to procure, train, and retain employees for global organizations. IHRM plays a very crucial role in terms of managing employees belonging to different geographical locations and countries.

International human resource management is the process of employing, training and developing and compensating the employees in international and global organizations. An international company is one which has subsidiaries outside the home-county which rely on the business expertise or manufacturing capabilities of the parent company. Generally, an MNC is considered to have a number of businesses in different countries but managed as a whole from the headquarters, located in one country.
According to Pigors and Myers, "International or domestic human resource management is a method of developing the potentialities of employees, so that they get maximum out of their work and give best efforts to the business organization".

In the words of Edwin B. Flippo, "International or domestic HRM involves the planning, organizing, directing and controlling of the procurement, development, compensation, integration and maintenance of people for the purpose of contributing to organizational, individual and social goals."
Another definition of IHRM is that "it is the systematic planning and co-ordination of the fundamental organizational processes of job and work design, staffing, training and development, appraising, rewarding, and protecting and -representing the human resources in the foreign operations of an organization".

Concept of International Human Resource Management

The concept of HRM as we are familiar with today began to evolve from the early 19th century. But the concept of International HRM is of a recent origin. Increased international trade and widespread globalization over the past few decades have given rise to a contemporary branch of HRM, i.e., international HRM, also known as global HRM.
It deals with the typical HRM functions like recruitment, selection, training and development, performance appraisal, etc., at the international level. According to Hugh Scullion, International HRM (IHRM) involves the HRM issues and problems arising from the internationalisation of business, and the HRM strategies, policies and practices which firms pursue in response to the internationalisation of business. IHRM is concerned with the management of all the human resource activities in global organizations without regard to geographic boundaries. It is the process of procurement, allocation and effective utilization of human resources in international business. It is the interplay among the three dimensions human resource activities, types of employees and countries of operation.
In other words, the basic human resource processes such as HR planning, procurement, training and development, induction, compensation, performance management and industrial relations are influenced by two other groups of variables. First group of variables consists of types of employees; these may be host country nationals, parent country nationals and third country nationals.

Objectives of International Human Resource Management

Within present business scenario, there are larger number of organisations conduct business beyond national boundaries. The differences in organisational environment

across nations have encouraged to determine and develop international HR staffing and practices. At global scenario, it is needful to study about HR hiring, staffing developing, compensating and appraising HR for better utilisation of people. International Human Resource Management is the process of managing people in international ventures and involves activities in at least two nations.
It is fact that the success of business and trades are depends on the skills and quality of human resources and how effectively these resources are managed and utilised at international level.

1. It enhances to develop managerial skills, organisational knowledge and technical abilities of HR managers and employees;
2. To develop more and better handle of global business operations;
3. To manage and secure the performance, compensation and career path of employees;
4. To manage and organise cross cultural counselling and language training programme;
5. To develop more feasible understanding of work practices at global levels;
6. To raise and develop better and new performance management of human resources;
7. To get more and more opportunities within global HR scenario;
8. To develop better and competitive HR strategies in global competitive scenario;
9. To reduce the cultural differences as amicable for cultural environment.

International HRM involves employees of three countries – parent country or the home country (where a company's headquarters might be located), host country (where company's subsidiary may be located) and third country (Other countries that may be sources of labour or finance).

International Staffing:

Staffing is a challenging function. Finding the right set of people has never been easy. However when it comes to international operations, the complexity of staffing increases many folds. Deciding on the mix of local employees to expats is not an easy decision to make. Several factors may impact the same.
Then cost is another major consideration. Cost of finding an international employee and hiring that person if often very high. Such cost aspects demand even more

careful consideration and selection. Errors in selection could be tremendously costly for the firm. Expat compensation and tax laws are huge consideration in international staffing. Tax treaties between certain countries ease income tax obligations of an expat.

Cultural Challenge:

Difference in national cultures of expats poses a challenge in hiring and assimilating international staff. A lot of pre-departure training for the expats is focused on cross cultural training. Cultural fitment of the expats plays a important role in the success of the projects and international assignments. Multi-national companies often develop hiring strategy and training interventions to cope up with this cultural challenge.

Training and Development in International Human Resource Management

Careful selection is only the first step in ensuring the foreign assignee's success. The expatriate may then require proper orientation, cross-cultural training, assistance in career planning and development, etc., in order to handle the assigned jobs in a competent way.

A. Orientation:

International positions require an extensive orientation to familiarise the employee with culture, language and other unique aspects of the assignment. Familiarisation trips could also be arranged for the prospective expatriates so that they can actually visit the country of their posting and live like natives there for a while.

The orientation programmes, generally cover areas such as:

1. Pre-Arrival Orientation:

(i) Cultural Briefing- Explaining the traditions, customs, living conditions, clothing and housing requirements, health stipulations, etc.

(ii) Assignment Briefing- Throwing light on length of assignment, vacations, compensation package, tax implications, repatriation policy etc.

(iii) Shipping Requirements- Shipping, packing, storage, housing facility in the new location etc.

(iv) Cross-Cultural Training- Differences in culture, language and laws may make it difficult for the global employees to be on track quickly. In order to lead a normal life, they need cross- cultural as well as language training. The failure to provide such training may create adjustment problems for the expatriate manager and the resultant culture shock (the inability to adjust to a different cultural setting) may compel the expatriate to quit the field altogether.

2. Post-Arrival Orientation:

Once global employees arrive in the host country, they will require further assistance in 'settling in'. Someone should receive them and help them in obtaining housing accommodation, establishing bank accounts, getting driving licenses, arranging admissions to school for dependent children etc.

Firms can help employees avoid culture shock, of course, by using selection tools to choose the employees with the highest degree of cultural sensitivity. An important part of an expatriate manager's training, further, should be an overview of the legal and ethical issues that are likely to be encountered on the overseas assignment.

B. Career Development:

The expatriate's motivation to do well on an international assignment is primarily dependent on the following things:

(i) Whether the present assignment would help the expatriate to learn new things, expand his knowledge, create a unique position for himself in the organisation ladder, and grow vertically within the firm — once the job is successfully completed.

(ii) Whether the expatriate is enjoying continued support from the headquarters or not.

MNCs Approach to International Human Resource Management

1. Ethnocentric Approach:

Here the MNC simply transfers HR practices and policies used in the home country to subsidiaries in foreign locations. Expatriates from the MNCs home country manage the foreign subsidiaries and the MNCs headquarters maintain tight control over the subsidiaries policies.

2. Polycentric Approach:

In this case, the subsidiaries are basically independent from headquarters. HR policies are developed to meet the circumstances in each foreign location. Local managers in the foreign sites are hired to manage HRM activities.

3. Region-Centric Approach:

This approach represents a regional grouping of subsidiaries. HR policies are coordinated within the region to as much an extent as possible. Subsidiaries may be staffed by manager from any of the countries within the region. Coordination and communication within the region are high, but quite limited between the region and the MNCs headquarters.

4. Geocentric Approach:

In this case, HR policies are developed to meet the goals of the global network of home country locations and foreign subsidiaries. This may include policies which are applied across all subsidiaries, as well as policies adapted to the needs of individual locations depending on what is best to maximize global results.
The firm is viewed as a single international business entity rather than a collection of individual home country and foreign business units. HRM and other activities throughout the MNC are managed by individuals who are most appropriate for the job regardless of their nationally. Thus, one may find a British manager handling HRM activities in the New York office of a Dutch MNC.

Practices of International Human Resource Management

An organization needs to consider the purpose for which it needs to send the employees for international assignments. For example, an organization may send its employees aboard to set up or explore a new market, or prepare them for top management positions. After the purpose of the international assignment is specified, the organization can initiate the process of selecting the best employees for the international project.

The following are the aspects of concern in IHRM:

i. International staffing

ii. Pre-departure training for international assignments
iii. Repatriation
iv. Performance management in international assignments
v. Compensation issues in international assignments.

i. International Staffing:

International staffing refers to the selection of the most appropriate employees for international operations of an MNC.

The selection of the most appropriate employees can be done by using the following three sources:

a. Home Country or Parent Country Nationals (PCNs):

Refer to the citizen of the country in which the headquarters of the MNCs is located. PCNs are not the citizens of the country in which they are working. For instance, an Indian citizen who is posted to an overseas subsidiary of an organization that has its headquarters in India is a PCN. In addition, PCNs are termed as expatriates. Generally, PCNs are hired to occupy key and top-level management positions because they possess sound knowledge about the operations of parent organization. The knowledge about parent organization helps the PCNs in ensuring proper linkage between foreign subsidiaries and the headquarters. However, hiring PCNs is a costly affair for an organization as it has to bear the relocation cost for them.

b. Host Country Nationals (HCNs):

Refer to the employees of an organization, who are citizens of the country in which the foreign subsidiary is located. An Indian manager working in an Indian subsidiary of a US organization is an HCN. For example, IBM normally hires HCNs. In addition, HCNs generally occupy middle and lower management level positions. The recruitment of HCNs is not a costly affair for an organization because it does not need to incur extra cost in cross-cultural training of employees.

c. Third Country Nationals (TCNs):

Refer to the citizens of a country, other than the country where the organization is headquartered and the country that is hosting the subsidiary. Staffing is done on the basis of ability and not on the basis of nationalism. For example, a British citizen

working in the Indian subsidiary of an organization whose headquarters is located in the US, is termed as a TCN. You should note that a TCN has substantial international experience and exposure that is quite advantageous for an organization.
The approach of internal staffing differs from organization to organization.

Some of the popular approaches for international staffing are explained in the following points:

a. Ethnocentric:

Refers to an approach in which all strategic decisions are made at headquarters and foreign subsidiaries are endowed with very little autonomy. PCNs or expatriates occupy key positions at headquarters as well as in subsidiaries. They control all the critical areas of operation, such as finance, production, and quality. McDonald's is an organization that follows the ethnocentric approach.

b. Polycentric:

Refers to an approach in which MNCs treat each foreign subsidiary as a distinct entity. Therefore, each foreign subsidiary is provided with little autonomy to make its own decisions. The MNCs, which follow polycentric approach recruits HCNs in their foreign subsidiaries. The staff at headquarters comprises PCNs because HCNs are rarely promoted to key positions at the headquarters.

c. Geocentric:

Refers to an approach in which the focus is on staffing the best employee for a particular position. The geocentric approach is based on an integrated global philosophy. The MNCs following the geocentric approach may recruit PCNs, HCNs, or TCNs for any position in the headquarters or subsidiaries. The nationality of the candidate is not the key to staffing because the MNCs focus on the ability of the candidate.

ii. Pre-Departure Training for International Assignments:

There are various cultural differences that exist between countries. No two countries have similar or uniform cultural and societal norms and practices. For instance, the US society does not believe in rituals, ceremonies, or formalities as Indians do. Therefore, employees should gain knowledge and understanding of the country's culture in which they are going to work.

It is the responsibility of the organization that its employees posted abroad should get proper cross-cultural training. This training should focus on skills that are needed to attain success in the international assignment and understanding cultural differences and socio-political environment of the country. Therefore, cross-cultural training has become very important for MNCs. Organizations, such as Coca-Cola, Procter & Gamble provide intensive training to their employees to prepare them for international assignments. These training sessions are usually conducted in the country where the employees are posted.

An organization must take into consideration the employee's family, lifestyle, number of children, and preferences for the successful relocation of an employee to a foreign country. The organization should provide a pre-departure training to both employees and their families.

The pre-departure training, also known as expatriation, makes it easier for the employee to adjust to a different culture and assume job responsibilities in an effective manner. The pre-departure training covers three main aspects, such as language training, training to manage personal and professional life, and cultural training.

In addition to providing a pre-departure training, the organization helps the employees in relocating and finding transport and housing in the foreign country. It is important that an organization maintains regular contact with the employees posted aboard and keeps them informed about important organizational development and changes.

iii. Repatriation:

Repatriation is the process of bringing expatriates back to the home country after the completion of the international assignments. For expatriates, the return of expatriates to the headquarters of the organization within the parent country is accompanied with certain fears and anxieties pertaining to readjustment in the old position and job responsibilities.

It is important that the organization takes appropriate steps and initiatives to manage these anxieties and make the re-entry of expatriate to parent country easier. For instance, an organization may not have planned the return of the employee; therefore, he/she may have to remain without any position/portfolio in the organization for a while.

In addition, the managers of the parent country fear that a foreign-return employee may get a better position than them. The organization can resolve this issue by entering into a repatriation agreement with the employee that specifies the maximum tenure of the foreign posting, the nature and type of job he/she will be given upon return and the salary to be expected upon return. In addition, the organization should assign a senior manager as a mentor for the employee posted abroad to take care of his/her career interests.

iv. Performance Management in International Assignments:

Performance is the result of a combination of several factors, such as motivation, skills, experience, ability, and working conditions. Therefore, these factors should be taken into consideration to assess the performance of employees whether they are on international assignments and domestic assignments.

Financial compensation offered to the employee must be in accordance with the skills, level of responsibility, and the performance of the employee who is assigned an international project. If the inadequate financial compensation provided to the employees, it may result in loss of motivation.

The standards expected from employees and the tasks assigned to them must be clearly communicated. In addition to cross-cultural, technical training should be provided to employees. If employees fail to understand their roles and responsibilities and cultural differences, it will adversely affect their performance.

A major problem with expatriate performance evaluation emerges due to dual loyalty of the expatriate towards the home country (parent) as well as the host country. If there is a lack of regular communication between the managers of host as well as home country, it becomes difficult to understand and assess the contribution of the employee to the organization.

v. Compensating Expatriates in International Assignments:

One of the most important and complex aspects of IHRM is related to expatriate compensation (compensation given to employees posted abroad). Different norms of compensation are followed by different countries. An organization often adheres to the compensation laws of the country in which the expatriate is posted.

Compensation is an important motivational tool for employees.

If the employees are not adequately paid for their services rendered, it may lead to dissatisfaction and loss of employee morale. An organization should make flexible

plans that can be changed as per the industry norms and standards prevailing in different countries to accommodate particular needs of employees posted in different locations.