

# Ethnocentric approach differences between expatriates and local employees



In today's global world Human Resource (HR) practices and policies have become very significant for further development of multinational organizations. In order for multinational companies to be competitive, it is necessary to have adequate international staffing approach. Management of employees in foreign subsidiary is a complex job. Nevertheless, Human Resource managers need to manage people across borders.

The aim of this paper is to present critical analysis of ethnocentric companies, advantages and disadvantages of this approach are demonstrated. Furthermore, role of expatriate managers and locals were described.

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### **1. Introduction**

Over the last few decades, multinational companies (MNCs) have become very powerful instruments for transfer managerial skills, proficiency, technical knowledge, and capital across nations. In today's world, which has become a global market place, Human resource management (HRM) have significant role in conducting international staffing policies and practices. According to Perlmutter (1969), there are four different categories of multinationals: Ethnocentric, polycentric, regiocentric and geocentric companies.

Ethnocentric companies: Home country oriented corporations; they believe that home country managers are more competent and trustworthy than foreign nationals.

Polycentric companies: Host country oriented organizations, local employees are recruited to control local operations.

Regiocentric companies: Is the combination of staffing policies, adequate for specific geographic areas.

Geocentric companies: Organizations are tending to apply the best from headquarters and subsidiaries in order to develop coherent worldwide practices, nationality is not criteria for selecting managers.

The purpose of these researches is to present ethnocentric approach, and to point out the main differences between expatriates and local employees. Furthermore, advantages and disadvantages of ethnocentric approach are explained.

## **2. Literature Review**

Ethnocentric companies tend to apply best practices to foreign subsidiaries through home country expatriates. According to Kopp (1994) and Peltokorpi (2008) Japanese firms have more ethnocentric human resource practice than American and European companies. Main reasons for this strategy are a lack of skilled host country nationals and necessity to provide good communication between headquarters and subsidiaries. However, such strategy can induce a number of disadvantages. The most renowned are retrenched career opportunities for host country managers, acclimatization of expatriates to new culture, socioeconomic, and legal system. (Widmier et al., 2008)

On the contrary, polycentric firms assume that local managers know more about local culture, tradition, market, and employment relations. Therefore, subsidiaries in each country should implement locally applicable practices under control of local people and with high level of autonomy. Further to O'Donnell (2000) culture distance has great influence on the level of control that parent firm has on the over foreign subsidiary. In this way, there are no problems with adaptation to new culture, and there are no immense costs connected with expatriates compensations and performance appraisals. On the other side, such approach can cause problems with control over the subsidiaries operations, because local executives may not accept headquarters policy and practices. (Treven et al., 2008)

## **2. 1. Advantages of Ethnocentric Staffing approach**

Mobility of personnel represents one of the main differentials between domestic and international human resource management. Expatriates are employees who work abroad on a temporary basis to achieve organizational goals (Olsen and Martins, 2002). According to Yang (2007) expatriates are transferors of knowledge and experience. Their main goal is to maximize productivity and competitiveness of new foreign subsidiary.

Essence of ethnocentric approach is the conviction that parent home nationals should be appointed for the leading positions around world. There are several advantages of this staffing policy. First, securing the personnel control, on this way firm try to incorporate headquarters' culture, values, norms, goals into foreign operations (Traven, 2006). Second, sending employees abroad is a very good way of developing managers into a competitive and knowledgeable cadre. Foreign experience is seen as

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necessary for further companies' internationalization. Third, efficient communication between foreign units and home country. ( Mayrhofer and Brewster, 1996; Min and DeNisi, 2005) Furthermore, training locals can produce significant expenditures, while multinationals business organizations have large number of expert, who can be easily relocate.

Mayrhofer and Brewster (1996) argue that some European organizations should keep ethnocentric staffing approach rather than change their attitudes in the more " developed" stages of Internationalization. For instance, it is better for small business organizations, which don not have developed coordinating mechanisms, to depend on personal control mechanism, and it is better for organizations that operate in countries that are culturally close to them, since cultural gap is not so present.

Furthermore, subsidiaries where local staff is unqualified, or chances for further career developments are scarce are easier for implementation of home HRM policies and practices. (Tayeb, 1998)

## **2. 2 Disadvantages of Ethnocentric staffing strategy**

Despite the merits that ethnocentric approach can causes to organization there are number of potential disadvantages of implementing ethnocentric staffing approach. According to the research made by Petersen et al. (1996) costs for managing expatriates, overcome expenditures associate with incomes for locals, since compensation package includes wage, housing costs, tax equalization, etc. Rochelle Kopp (1994) points out that headquarters should prepare local nationals who have essential skills for managerial posts. This can be done through training programs and

experimental international rotation programs, which will produce a new  
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group of experts. Second, expatriates may not obtain knowledge about host country culture and local business environment, which can lead to immense costs for the firm (Treven, 2006). In order to work efficiently expatriates need to adjust and to modify their behavior to the new cultural (Clark et al., 1999). Moreover, transfer of home country personnel to host country markets can lead to employee dissatisfaction, because home country experts block some positions. Without local support, expatriates can encounter with adjusting problems, which can lead to the flight of expatriates. (Min and DeNisi, 2005)

### **3. Conclusion**

Importance of staffing strategy for multinationals organizations has become crucial for success. In order to be competitive and effective companies are facing with huge pressure. Whether they to implement ethnocentric or polycentric approach in order to govern the organization in international markets.

Finally, we can conclude that executives need to have knowledge and understanding about culture, tradition, legal and political regulations of subsidiaries and to find the best model for selecting employees. Therefore, we cannot say that one model is appropriate for each country. Both expatriates and locals are important, and MNCs need to determine the benefits and disadvantages of expatriates and locals. Multinationals organizations should try to achieve balance between strategic goals of company, costs and local environment.