Why do international companies use expatriate managers

[Business](), [Management]()

Long before the globalisation, the internet and advanced telecommunications many companies with an international orientation have applied expatriate managers - some even since the early days of international trade. The theme for this essay is critically to evaluate the reasons why international companies continue to use expatriate managers even though it is a very expensive option. The term expatriate originates from the Latin words ex patria (out of fatherland) and refers to an employee from one country that temporarily works and resides in another.

Expatriates may either be send out for assignments from the parent company as parent-country nationals (PCNs), send in as an ' inpatriate' to the parent company from the host country subsidiary as host-country nationals (HCNs) or send from one to another third country subsidiary as third-country nationals (TCNs). Referring to the resource-based school, emphasizing the importance of organization-specific resources, the HRM strategy of using expatriate managers is an ' inside out' strategy based on the human capital and capabilities of expatriate managers in acquiring a competitive edge by levering company core competences in new markets.

An expatriate is typically an employee with a management and/or a technical key competence, or a younger employee with a high potential. In 2005, 54 percent of US-expatriates were between the age of 20 and 39 (HR Magazine, 2006). The 11. annual GMAC Global Relocation Survey in 2005 found that women accounted for 23 percent of international assignees, up 5 percent from the 2004 survey. Referring to Janssens et al. (2006), " all foreigners are foreigners regardless of their sex, meaning that female expatriates are not associated with local women but rather with male expatriates.

The usual length of long-term assignments is up to 3 years for 57% of companies and up to 1 year for 55% of companies by short-term assignments (Knapp, 2010). However, short-term ‘ commute’ assignments, where a spouse and any children remain at home, are gradually increasing. Besides goodhealth, important personal characteristics for a successful expatriate are soft skills (Barham & Antal, 1994) like the understanding and the ability to adapt into a foreignculture, demonstrating goodemotional intelligencefor building relationships and for working in international teams.

Professionally an expatriate manager must process strategic awareness, a contextual intelligence (Mayo & Nohria, 2005) and the ability to think ‘ outside the box’. As well, the necessaryleadership, management, entrepreneur and language skills are required for acting as a change agent. From an HRM point of view, further prerequisites for a successful expatriation are clear defined success criteria, clear reporting lines and a close contact and back-up from parent company, including a plan for repatriation.

Last but not least, a successful adjustment of anyfamilyinto the foreign country is crucial for a successful expatriation. Although the theme of the essay basically is a postulate, the validity is supported by a recent report from the Economist Intelligence Unit[1] concluding that four out of ten international companies actually plan to increase their expatriate staff over the next five years.

An earlier study from 2006 also showed that ‘ 47 percent of US-companies reported an increase in the size of their expatriate population from the last year and 54 percent expect additional growth this year’ (HR Magazine, 2006). Even stronger support is referred by Knapp (2010) with an increase over 2 years of 63 percent in companies using long-term assignments and 67 percent increase in companies using short-term assignments. However, studies also show high expatriatefailurerates.

From 20-40 percent (Mendenhall, Dunbar & Oddou, 1987; Dowling, et. l. , 1999; Forster, 1997) to 40-55 percent (Johnson et. al. , 2006) and the reasons are many! From inadequate selection criteria, lack of training and family adjustment issues (Harvey, 1985; De Cieri, Dowling & Taylor, 1991; Dowling, et. al, 1999) to difficulties in adjusting and managing across cultural settings (Birdseye & Hill, 1995, Black, Mendenhall, & Oddou, 1991) , unclear success criteria, unclear reporting lines, inadequate contact and back-up from parent company and a inadequate work/life balance.

The aforementioned increase in expatriations is remarkably in itself, but also as there are reasons advocating a decrease in expatriations besides the aforementioned risks of expatriation failure: High levels of heterogeneity in different markets compared to home market, where differences in culture and high complexity in foreign legislative and other institutional conditions, as well as potential political risk, lead to greater utilization of local management rather than expatriates managers.

Subsidiaries also tend to operate on a wide extend of local autonomy in polycentric (Perlmutter, 1966) multinationals structured with a loose coordination and a disperse configuration (Porter, 1986). The fact thatcareeropportunities for locals are reduced if expatriate managers are used, that mobility barriers in dual (two) career families are increasing, that there is an overall unwillingness to go to unattractive locations, coupled with uncertainty about the repatriation and the further career possibilities, may likewise limit expatriations. In some cases there may be work permits / visa constraints too.

However, despite the above mentioned and despite the high direct cost of expatriation and the high indirect cost by failed expatriations, international companies apparently, as aforementioned studies show, continue to use expatriate managers increasingly for reasons the essay seek to evaluate below. Introductory, setting the context from a human resource management (HRM) perspective, the need for a sufficient supply of qualified managers who are capable of managing in foreign markets increases as the importance of overseas operations expands within the organization (Stroh & Caligiuri, 1998).

This is related to the international company's degree of internationalisation[2]. The market servicing strategy of an international company may initially evolve from conducting direct export, to setting up sales subsidiaries abroad, followed by overseas production in form of either licensing, joint ventures, acquisitions and eventually in form of greenfield investments. Besides a growing wish for exploiting global opportunities, the domestic sales of home-oriented companies may also be threatened by competitors, thereby confronting the home-oriented companies with a ‘ eat or be eaten’ scenario.

As a strategic response and as a strategic development path, companies therefore often choose to proactively merge with and/or acquire other businesses, thereby speeding up or increasing a vertical / horizontal integration into exclusive global value chains for serving global markets – and thus the internationalisation degree is increased. Additionalglobalizationfactors like deregulation of trade, free flow of capital and improvements in cost and speed of transportation have further supported and accelerated the transformation of many (especially upstream) markets into global markets with increased homogeneity.

The realization of the above strategic development opportunities are fundamental for creating a future unique and competitive mission of an international company, who often turns to the use of expatriate managers for many reasons.

First, international companies want to optimize their chances of success! It is evaluated that expatriate managers often are the preferred choice because they can be trusted and therefore they are more likely to act in the best interest of the organization, they have the same mindset as HQ andcommunicationis therefore easy, they know the business and they are sought to be competent.

Expatriate managers are therefore, all other things being equal, capable of moving the business into the agreed direction by creating the necessary organizational energy and organizing and completing the necessary projects.

In that way expatriate managers ‘ are becoming chief catalysts for the implementation of a multinational’s strategic decisions’ (Kim &Mauborgne, 1993). To evaluate further why international companies use expatriate managers, a typology of international companies are needed to understand their differences in relation to the reasons for the possible use of expatriate managers.

Based upon the four stages and main structural forms of international firms (Bartlett and Ghoshal, 1989, 1995) and partly the integration-responsiveness grid (Prahalad and Doz, 1987), international companies can be categorised into the multinational (‘ multi-domestic’), the global form, the international form and the transnational form. Although in reality other specific organizational hybrid forms do exist, emerging under the influence of exogenous and endogenous factors (Schuler et al. 1993), the aforementioned models are useful for understanding the different contexts of international companies in relation to the reasons why they continue to use expatriate managers.

The multinational company form is often reflecting back to the international companies in the first half of the twentieth century. These were often organised with a kind of mother-daughter structure, but the form also exits today in national markets with regulatory differences (e. g. utilities) and in national markets where consumer tastes vary greatly from one national market to another.

The multinational company form is polycentric (Perlmutter, 1969) in outlook with a host country centred culture applying an adaptive (Taylor et al. ,

1996) HRM approach. It is characterised by a dispersed structure and a loose coordination (Porter, 1985), typical using series of different domestic strategies (hence the term multi-domestic) in countries determined by different competitive conditions shaped by differences in consumer / buyer behaviour and (past) national barriers.

The national subsidiary, operating with a high degree of autonomy in a bottom up governance structure with decentralised HRM, hereto offers a high degree of local responsiveness, which is one of the generic building blocks (Hill and Jones, 1995) for a multinational company. However, referring to the stage model by Adler and Ghadar (1990)[3], the (becoming) multinational company may use expatriate managers in the organizational transitional lifecycle phase coming from the international phase.

To secure success, the multinational company must provide the necessary management attention, and it is evaluated that qualified expatriate managers in particular will be able to secure the ‘ country of origin’ effect when setting up subsidiaries abroad, where after they pull out and let local management take over when the necessary knowledge has been transferred by the expatriate manager. In recent times, ABB from 1987-1996 is an example of a multinational company, split into 1300 smaller companies and around 5000 profit centres, and functioning as far as possible as independent operations including decentralization of R&D.

For the international company the global form may be a respond to the globalisation as described in the second paragraph on page 3. The global company has an ethnocentric (Perlmutter, 1969) outlook with a home country centred culture applying an exportive (Taylor et al. , 1996) HRM approach. It is characterised by a global integration by means of a concentrated configuration and a tight coordination (Porter, 1985), (e. g. ABB since 1997) with top down governance typically replicating the same business model in markets characterised by worldwide convergence in consumer tastes (e. g. MacDonalds).

In addition to the reasons and the evaluation mentioned in the second and third paragraph on page 3, it is essential for the global company to secure scale economies, thereby strengthen competitiveness and keeping EBIT margins, as well as securing one global company culture. It is evaluated that global companies therefore continue to use expatriate managers (often in low cost countries with limited knowledge) to secure a strict control of overseas operations, to leverage a global company culture, and to assure scale economies in order to achieve superior global efficiency.

Referring to Adler and Ghadar (1996) the global phase (and the international phase) are also the phases where expatriates are used the most. The international form resembles the global form, however overseas operations are allowed to adapt parent company products and services in order to suit local needs, and although there is a formal centralised control is it not that tight as for the global form. Besides the rationale as mentioned above for the global company, it is evaluated that expatriate managers may facilitate overseas operations in adapting and levering parent products and services successfully.

An example of the international form was my company[4], however Trelleborg is today more in a hybrid form between the international and the transnational form. The structure applied at Trelleborg with the same business model adapted in three regions (Europe, Americas and Asia) reflects a regiocentric (Perlmutter, 1969) mindset, but global core values and a universal code of conduct are also applied which reflects a geocentric mindset (Perlmutter, 1969). The international company may ultimately evolve into a transnational company (TNC) with an integrative (Taylor et al. , 1996) orientation and regiocentric (Perlmutter, 1969) mindset.

The TNC is ideally (but not always ideal!) a network form of organisation with dispersed management control as a ‘ heterarchy’ (Nohria and Ghoshal, 1997). The TNC on one hand integrates, configurates and coordinates activities globally mainly to achieve low cost products, and at the same time the TNC responds to local (national / regional) variations in buyer / consumer preferences by offering customized products, hence the oxymoron ‘ mass customization'.

As a dispersed network it is evaluated that the TNC needs mechanisms that can bind it together, enable organisational change, diffuse social capital (Leana and Van Buren, 1999, p. 39), Kostova and Roth, 2003) and transfer learning and knowledge across various international operations (tacit knowledge in particular). And in all forms, (PCNs, HCNs, and TCNs), short and long-term, expatriate managers in particular may be the effective tool to accomplish precisely that. The role of the expatriate manager in knowledge diffusion in transnational organizations has also been recognized by Bartlett and Ghoshal (1995). Likewise, Beardwell and Claydon (2011, p. 665) states ‘ another significant mechanism for the generation and transfer of international HR knowledge is the expatriate manager’.

It is further evaluated that TNCs will continue to use expatriate managers as TNCs within their network will need to globally trace and globally leverage possible synergies and competitive advantages, as well as conducting internal benchmarking for the implementation of best practice throughout their network. As a real-world example I commuted myself as a TCN from Trelleborg Denmark to Trelleborg China in 2006 participating in setting up a greenfield investment in Shanghai and having theresponsibilityfor hiring, training and rolling out best Trelleborg practice to new customer service colleagues.

As cost of intercontinental travel has become lower, the way of commuting is yet another reason why international companies continue to use expatriates managers. Nestle, Philips, Vodafone and Unilever are examples of the transnational form, but also in the automobile, the computer and the pharmaceutical industry the TNC structure is widely applied. Besides the introductory evaluation of reasons and independent the above structural forms of international companies and the evaluation of their aforementioned specific reasons, international companies may share further some common reasons for their continuing use of expatriate managers.

First, international companies need to develop global competences, hence global competent managers are needed. For that reason it is necessary to create international management development opportunities for high potential junior employees by being send out as expatriate managers from the parent company (PCNs), as well as for inpatriate managers (HCNs) from overseas domestic subsidiaries. In that way internal development of global talent is fostered, and global experience gained, which plays a central role in building global ompetence. Secondly, international companies may need to fill in vacant positions with expatriate managers as there are not enough domestic managers who can do the job – for example in China, where there is today a dearth of appropriate management skills (Beardwell and Claydon, 2011, p. 621).

On a negative note it could be argued that international companies continue to use expatriate managers because the first one send was a failure! 5] Last, local managers may also fail, and if the international company evaluates that the risk of failure is higher by local management or not that successful compared to sending out an expatriate manager, then the expatriate solution may turn out as the most cost effective solution anyway. Although the expatriate solution in itself is a very expensive option, it is for the international company only a small investment, seen in the broader context of successfully implementing important international business development strategies.

The essay has shown and evaluated that the reasons for using expatriate managers outweigh the reasons against. The use of expatriate managers ‘ is where the rubber meets the road’ as expatriate managers play a very important role in executing international business development strategies for achieving sustainable competitive advantages and for actually materializing the vision of what shall be the company's future competitive mission.

However, given the fact that the use of expatriate managers has increased and the high risk of failure, HRM-managers should increase their concern of ensuring clear defined success criteria, clear reporting lines, close contact and back-up from parent company and successful adjustment of any family. Besides this, HRM-managers should ask themselves what they could do better! The international company could attract, place, retain and develop global managers by establishing candidate pools (Harvey et al. 2001) of potential expatriate managers by pooling together talented global manager candidates within the company from everywhere in the world.

This would require HRM-managers to develop and propose human resource development strategies defining how candidate pools may best support business strategies - e. g. strategies defining global management excellence and expatriation excellence - and it would require corresponding practices integrated into bundles (Huselid, 1995) of existing HR practices within the company to make t work globally. The benefits however, are the development of global management competences, tailored to the context of the specific international company, which are capable of developing and implementing sustainable competitive advantages globally. Moreover, the creation of a global manager culture in a ' multiethnic' candidate pool may contribute bridging diverse cultures across different countries and leverage a desired company culture globally. As we say at Trelleborg: ' Working together to be different'.