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Expatriate Management in Cross Cultural Business Environment in MNCs

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Abstract:

With liberalisation of trade barriers and increased internationalisation of companies, the number of multinational companies (MNCs) coming into existence is higher than ever before. With internationalisation, business is being conducted with different countries with distinguished socio-cultural, economic and political environment. An increasing number of companies are performing business in cross cultural environment and adapting to different institutional and cultural factors in the host country. In the global context, managing human resources effectively is an important aspect of gaining competitiveness by the MNCs to ensure that effective balance is maintained between strategic and economic aspects and the human resources practices. Expatriation is one such crucial human resources practice important for meeting the strategic goals of an organisation. In this article, the increasing importance of expatriates in the cross cultural business environment is reflected upon. The analysis then focuses on the aspects of evaluating the success of expatriate assignments and effective management practices that can improve expatriate management.

Keywords: *Expatriates, importance of expatriates in cross cultural environment, measuring success of expatriate assignments, effective expatriate management*

1. Introduction

With liberalisation of trade barriers and increased internationalisation of companies, the competitiveness of the business environment has increased. The number of multinational companies (MNCs) coming into existence is higher than ever before. These factors have changed the way businesses are managed as with internationalisation, business is being conducted with different countries with distinguished socio-cultural, economic and political environment. An increasing number of companies are performing business in cross cultural environment and adapting to different institutional and cultural factors in the host country. In the global context, the success factors of organisations lie in their ability to strategically adapt resources to the cross cultural environment (Ling & Jaw, 2006). Managing human resources effectively is an important aspect of gaining competitiveness by the MNCs (Scullion & Starkey, 2000) to ensure that effective balance is maintained between strategic and economic aspects and human resources practices (Taylor et al., 1996). Expatriation is one such crucial human resources practice important for meeting the strategic goals of an organisation (Novicevic & Harvey, 2004). The report starts with discussing the increasing importance of expatriates in the cross cultural business environment. This analysis will focus on the aspects of evaluating the success of expatriate assignments and effective management practices that can improve expatriate management.

2. Evidence Building and Evaluation through Critical Analysis

2.1. Increasing Importance of Expatriates in Cross Cultural Environment

A key reason for recruiting expatriates by the MNCs is growing complexity of external environmental factors influencing the business and the need to have a higher preparedness of managers to operate in the global level cross cultural environment. A study by MNC identified that lack of quality expatriates tend to have a negative impact on internationalisation of companies and their bottom line. So, it is imperative to recruit expatriate with a better understanding of cross cultural business conditions.

The article "The great expatriate hiring boom" from Fortune written in 2013 notes that though the overall recruitment by US firms has been slow in recent years, recruitment of managers for emerging economies like China has been on focus. A survey conducted by Ernst & Young in 2011 noted that the leadership of 42% of companies surveyed recognised expatriate recruitment as a key challenge. Another survey by global staffing company, ManPower, revealed that in India, 67 percent of the managers faced difficulties in expatriate recruitment. Global manager is increasingly given preferences. Moreover, retaining qualified expatriates are a challenge as competitors in the host country often poach them for higher salaries. To mitigate such challenges, companies have implemented strategies to parachute in expatriate executives, but without much success (Alsever, 2013). On the contrary, in opinion of Mark Murphy, CEO of Atlanta research firm identified that often local managers with a better understanding of national cultures and markets play a more positive role in long term sustainability of businesses. The technology company iGate adapted this strategy and

identified local employees from within the company and focused on grooming then to enable them take up top management level positions in the company's Indian operations. Similarly, Control Risks firm after losing top management employees to competitors in China, the company has adopted a more strategic approach to retain human resources, the most important asset of the company (Alsever, 2013).

Yves Doz from INSEAD Emeritus noted that multicultural managers at critical positions in an organisation can contribute positively to a company's success in the global markets. But it requires the company to invest time and efforts to develop and deploy multicultural managers appropriately. In the article titled "*How L'Oreal masters multiculturalism*" (2013) the authors identified five roles that multicultural managers play in better was as compared to host country local managers and helped L'Oreal to succeed in its international operations. These roles include being able to differentiate between home country and host country cultures and develop a global brand with due consideration to the local sensibilities, being able to interpret complex knowledge as for marketing cosmetics knowledge to be used is tacit and culture dependent, being able to manage cross cultural conflicts better to ensure effective global teams, being able to readily internalize the new recruits from diverse cultural background and develop strong team identity, and communicating effectively with the global culturally diverse teams and senior management (Hong and Doz, 2013). Researcher Maddux, et.al. (2010) noted that cross cultural cognitive integration induces a high level of creativity for innovations and adaptable leadership style to manage global businesses better.

For developing multicultural skills, being a 'born multicultural' or having a multicultural upbringing, i.e. being exposed to different cultures is not sufficient; it is important to perform "rotational assignments" in MNCs to be able to develop multicultural skills (Doz, 2013). In the research titled "Once a Frenchman, always a Frenchman", author André Laurent (1980), based on the research on a sample of executives from MNCs recognised that experienced executives reflect being "global" managers, but such managers experience a strong conflict between their social identity ("global" managers) and inner personal identity ("local" national culture to which the executive belongs) as their cross cultural learning process is influenced by their identification of culture of origin. In this context, Carlos Ghosn, CEO of Nissan, in his speech in 2012 accepted that being a multinational executive with a cultural combination of being Lebanese (often at wars due to religious conflicts) and being Brazilian (a peaceful culture with high internal multiculturalism) has been a key determinant in his success as the CEO of Nissan (Doz, 2013).

2.2. Measuring Success of Expatriate Assignments

Researchers have often found that it is difficult to measure the success of expatriate performance because of several external influences (Bussin, 2015). One of the most common approaches to measure expatriate failure has been premature return from assignment. Harzing (1995) in her studies noted that past literature lacked empirical evidence of large scale cross cultural study on the subject. The researcher has historically reflected that the expatriate's failure rates in the US, companies measured based on premature return from assignment is much higher than that of the Japanese and European companies; though more recent studies by Peterson et al. (2000) reflect a lower failure rate in US companies. But premature return fails to include the expatriates who return midway through their assignments and those who completed the tenure of the assignment but failed to produce the desired outcome. Such failures may lead to loss of business relation of the company, poor customer experience, and disrupted performance (Zeira&Banai, 1984). Some of the impacts of a failed expatriate assignment on the expatriates personally are strain, negative career impact, increased stress level, and conflicts with family members (Hechanova, et.al., 2003). To overcome the issue in measuring success of expatriate assignments, Caligiuri and Tung (1999) suggested the use of a three-faceted construct: (1) premature termination of the assignment, (2) cross-cultural adjustment, and (3) actual job performance on the assignment. The third point of succeeding in the job, performance is the most obvious measure of appraising performance of employees in any job role. This point is similar to that of performance management of employees across the organization. With the help of the examples, the other two aspects (typical solely of expatriate assignments) are discussed below.

2.2.1. Premature Termination of the Assignment

Premature termination of the assignment is one of the key measures to evaluate the success of expatriates. Research by Black and Gregersen (1999) identifies that about 80 percent of the companies in the mid and large segment send employees and managers to host location subsidiaries and the number of employees that these companies plan to send abroad is only stated to increase. A lot of cost is involved when the companies plan to send the expatriates. The compensation package of expatriates is usually much higher than what they would have earned in a same position held in their home country. So, companies often view expenses on expatriates as an investment. But in reality, when receive poor returns on such investments. Black and Gregersen (1999) in their research studied the US, UK and Japanese companies based on a sample comprising of expatriates and their managers in the home counties from 750 companies. The research considered the evaluated the success of an expatriate assignment and its contribution to the organisation and the individual employee and what happened after repatriation. The outcomes of the research found that about 20 percent of the expatriates returned early due to job dissatisfaction and failing to adjust in the host country. About 33 percent of the expatriates who stayed in the host country through their complete tenure of the assignment could live up to the expectations of the company. Also, the heightened turnover rate was found among expatriates who leave their jobs and join competitor's companies.

2.2.2. Cross-Cultural Adjustment

Cross cultural adjustment refers to the degree of the psychological comfort that expatriates experience in a different culture in the host country (Gregersen& Black, 1990). Existing literature identifies three aspects related to adjustment. These are adjusting to the general environment i.e. the living condition like climate, housing, food, healthcare, children's education, etc. in the host country, adjustment

to the host country nationals and engage in effective interaction with them, and adjusting to work environment (Black & Stephens, 1989). Researchers have also indicated that a cross cultural adjustment is the primary outcome in the expatriate assignment with will, in turn, be instrumental in the secondary outcomes important for secondary outcomes. Being unable to adjust may lead to consequences in the personal as well as professional life of the employees (Kim & Slocum, 2008).

An article by Armin Bruck, MD & CEO, Siemens India, published in Forbes in 2013 can be discussed in this context. The 50 years old PhD in operations research from the University of Mannheim shifted to India permanently after a number of expatriate assignments to India over the past 15 years. His key insights on mistakes by people of home country about the cross cultural aspects in India are considering India to be a larger and a cheaper adaptation of their home market, failure to capitalise on “frugal innovation” that has the potential to improve cost effectiveness of the company and failing to understand that India not only produces a number of engineers as compared to several developed countries but also produces engineers who are more ambitious and creative. He recognises that there has been a paradigm shift in India in terms of business environment, internationalisation and entrepreneurship and this overturns the cross cultural beliefs that people of developed countries have about Indian culture and food. He notes that due to lack of understanding of the environment in India, several expatriates from developing countries opt for assignments in other countries but not India. According to him, when a person visits India for the first time, he might note the negative aspects like infrastructural issues, environmental issues etc. But once an expatriate comes to the location on multiple assignments, he is expected to undergo perspective changes and identify opportunities and managing a dynamic country like India, considering the business environment and the cultural environment, require active involvement of expatriates. He also identified that language plays an important role in effectively adjusting to the cross cultural environment and being successful in a long term expatriate assignment as in India interpersonal relationships are valued even in a business context and being able to speak the local language helps people perceive that the expatriate has higher commitment level to the business in the host country. Moreover, India being a collective society, unlike the western countries, expatriates need to be open to accept different cultural facets, cultural norms and practices which are strikingly different from that in their home countries (Bruck, 2013).

The above example of the article, though reflecting that adjustment to cross cultural aspects is a result of an expatriate’s perspective and ability to adjust to the cultural environment, a news article in Dutch Daily News (2011) reflected on the role that national culture of the countries plays in facilitating cross cultural adjustment by expatriates. The article noted that Forbes magazine rated Canada to be to be the most expatriate friendly country while Netherlands to be the least friendly. According to HSBC Bank International’s Expat Explorer survey, the top four expat friendly countries are Canada, Bermuda, South Africa and US because of the local language being English and the ease of communicating with local people and internalise with the culture. Other countries with friendly national culture are Australia, Germany, Malaysia, and UK (Dutch Daily News, 2011).

3. Effective Expatriate Management

In most cases the failure of the expatriates can be related to the failure of developing effective strategies and practices for managing expatriates. The HR department is often assigned the job of selecting, training and supporting expatriates. But ironically, the HR managers have very little practical experience of being an expatriate to understand the real life issues that expatriates may face and their implications as less than 10 percent of the HR managers from the sample studied by Stewart Black and Hal Gregersen (1999) had taken up overseas assignments. As a result, they fail to contribute to expatriate management at a strategic level and perform only related administrative jobs. They fail to realise that the expats after they return from their assignments need support to adjust to the jobs in the home country (MacDonald & Arthur, 2005). At the same time, there are companies that have been successful in expatriate management and could retain the expatriates even years after their repatriation. Some of the common practices of such companies are increased focus on knowledge transfer, and developing global leadership skills, considering fit of technical skills and cross cultural abilities when identifying employees for overseas assignments and designing an effective deliberate repatriation process to support expats manage the personal and professional upheaval during repatriation and enabling them to be in the correct career path and put the overseas experience at work (Caligiuri & Lazarova, 2001). Based on this understanding, the following section attempts to outline effective expatriate management strategies by supporting them with real life examples.

3.1. Identifying Right Reasons for Expatriate Assignments

It is important for companies to consider foreign assignments from a long term perspective and should go beyond addressing a short term business problem. Often companies are found to place expatriates in posh foreign locations like Paris and London as rewards to privileged employees as rewards. But it is important to note that such foreign assignments have very addition to the business of the company. Instead placement of expatriates to crucial developing economies like Brazil, India or China makes more business sense; though such assignments for long have been considered to be assigned to the unfavourable employees who are dumped at these locations (Black & Gregersen, 1999). It is important that expatriates strive to overcome pressing issues in the foreign location and ensure success of the foreign subsidiaries or gain new knowledge and acquire new skills to the company.

A case in point is Nokia, one of the largest mobile phone manufacturers globally, which has effectively gained knowledge through foreign assignments of expatriates. The company has manufacturing facilities across the US, Europe and Asian countries where they conduct research and development for new product development (Official website of Nokia, n.d.). These facilities employ engineers from across the globe that work together with the expatriates and generate innovative ideas for product development through effective knowledge sharing.

In lines with the perspective of Bruck (2013), Jack Welch, CEO of GE identifies that in a truly globalised world, it is important that leaders develop a global perspective by staying at foreign locations for extended periods and not by staying at the company

headquarters and making short visits to the foreign locations (Rao, 2014). For improved performance of the expatriates, the mental maps and assumptions of the people about different foreign locations need to be needs to be altered through long term assignments. An example of successful expatriate assignment is Stephen Burke, Vice President, posting at EuroDisney helped the company to revive the theme park by implementing the knowledge about French culture gained by him. This helped the company make necessary changes and register profits at Euro Disney (later renamed as Disneyland Paris) for the first time (Stewart, 2008).

It is of significance that the expatriates are clearly explained about the job roles and objectives of their foreign assignments (Joerres, 2011). This will help them work in the correct direction and ensure that the company gains from such expatriate assignment. Companies with international companies are expected to face issues and challenges from time to time. To resolve such problems the focus of such companies should not be to send expatriates to address the immediate problems but to ensure a sustainable long term solution for the issue (Caligiuri & Colakoglu, 2007).

3.2. Assigning the Right Employees to Expatriate Assignments

Often managers are found to ensure technical fitment of the employees with the expatriate assignment, but fail to evaluate the abilities of the employees to adapt to new environment and the gauge their cultural literacy. A report by Ghemawat (2012) published in McKinsey Quarterly emphasises the issue of lack of global-leadership capacity as a major aspect that the companies need to evaluate in an employee at this may lead to failure of expatriate assignment. Some of the aspects that the companies need to evaluate in employees before selecting them in the talent pool for overseas assignments include enthusiastic and extrovert in conversation who are not shy to communicate in their fractured local language, broad based socialisation skills so that expatriates do not remain confined to their small group of fellow expatriates (Johnson, et.al., 2006), cultural flexibility to be able to adapt to local food habits like dal and chapatis in India or local jai alai in Brazil instead of sticking on to McDonald's for meal options, cosmopolitan orientation that allows employees to be open to diversity and respect other people's culture, and collective approach to management to avoid potential conflicts (Gregersen & Black, 1990).

At Korean electronic goods company, LG, uses a formal method of evaluating employees for foreign assignments by asking them to fill a 100 question questionnaire that will assess the cross-cultural skills of the employees and their readiness to take up foreign assignments. Based on the analysis of the questionnaire, the managers discuss with the employees and develop training programs to develop skills needed for successful expatriate assignment (Atkinson, et.al., 2010). Colgate-Palmolive, earning more than 20 percent of its profits outside the home country, adopts a different strategy to evaluate the employees. The company recruits employees at entry level marketing positions from universities based on their ability to handle cross-cultural situations evaluated based on the pre-set parameters of the company. They try to identify candidates who had exposure to foreign markets earlier and capitalize on the previous employer investments on the candidate. On recruitment, they are sent on a series of training with short term stints in the foreign location and when they gain adequate knowledge, they are assigned long term assignments (Colgate-Palmolive database captures cultural awareness: Expatriate knowledge put to good use, 2003). Thus, through the process of the companies try to strike a balance between costs incurred on expatriates and their success and ensure high return on investment on costs incurred on expatriates by the companies (McNulty, 2009).

In another article published in McKinsey Quarterly by Joerres (2011) notes that reverse expatriation can help companies ensure right employees are placed in the foreign assignments. Reverse expatriates, local employees at the foreign subsidiary locations, spend a predefined span of time in the company's other established operations to help the expatriates gain insight into the functions and operations of the other units. Based on the learning, they are expected to develop a plan to implement some knowledge gained in this way to the host country operations. When effectively implemented, this strategy can ensure increased competitiveness of the company.

4. Conclusion

In summary, the paper identified the growing importance of cross cultural employees in a business environment. The aspects of premature termination of the assignment and cross-cultural adjustment are discussed to evaluate measures to gauge success of expatriate assignments. Following this, identifying right reasons for expatriate assignments and assigning the right employees to expatriate assignments are discussed as the key ways of effective expatriate management. Taking up an assignment at a foreign location has always fascinated me. So, under the broad topic of cross cultural management, I chose to work on the aspect of expatriate management. The portfolio development and preparation of the critical evaluation report allowed me to develop an understanding of how the concept of expatriate management has been similar or different to the existing literature on the subject and how the concepts are applied by different companies in different ways in real life.

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