

INTERNATIONAL STAFFING: FACTORS, ISSUES AND ALTERNATIVES

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ABSTRACT

Purpose - The aim of this study is to analyse the issues in international staffing faced by the MNCs and to suggest alternatives for expatriate assignment.

Design/methodology/approach – A literature review was done on recent trends and advances in international staffing adopted by the multinational companies.

Practical implications – To understand the role played by expatriate assignees in formulating business strategies for global operations.

Originality/value – This paper represents advancement in the study of international staffing, its trends and scope. It explores how expatriate employees affect the reputation and business operations of a firm engage in foreign assignment.

KEYWORDS : International Staffing, Expatriate Performance, Feasibility.

INTRODUCTION

The introduction of international staffing has been in practise since 1900 BC when people were being transferred from one location to another location for running of their business. Entrepreneurs have advocated the importance of international staffing mainly for the reasons they cite as locals were treated as incompetent and inferior and were suitable for only lower level jobs, while the parent country nationals (PCNs) were afforded superior conditions. The owners of the multinational companies (MNCs) realised the benefit of utilising people known to them and socialise them into the firm to minimize the agency problem (Jensen and Meckling, 1976). These people are more trust worthy and can act in the best interest of the parent organization. Thus during 1900 BCs, the expatriates were used as way of addressing the agency issues because the firm's ownership and management were separated by a large distance.

The current day concept of international staffing has taken a leap since the onset of globalisation and opening up of economy. Modern day MNCs devise their international staffing based on the ground breaking work of Edstrom and Galbraith (1977). They propose three reasons to go for international staffing. The first reason could be to use them as position fillers when no suitable and qualified Host Country nationals (HCNs) are available. The second reason for going international staffing can be as a means of management development, particularly to develop the competency of the individual staff. And the third reason for going international staffing is to develop and create knowledge base for the

organisation, in other terms to increase knowledge transfer within the MNC and to modify and sustain organisational structure and decision making process. Although, the international assignment can have more than one rational as one reason cannot fulfil the desired expectations or targets. More recently, Harzing (2001) identified three control specific roles of expatriate, namely: the bear, the bumble bee and the spider. Bears act as a means of replacing the centralisation of decision-making in multinational companies and provide a direct means of surveillance over subsidiary operations. This highlights the degree of dominance the foreign assignees have over subsidiary operations. Bumble bees fly “from plant to plant” and create cross-pollination between the various units. These expatriates can be used to control subsidiaries through socialisation of host employees and the development of informal communication networks. Finally spiders, as the name suggests control through the weaving of informal communication networks within the MNC. Harzing (2001) argues that although expatriates generally appear to perform their role as bears regardless of the situation, the study suggests that their roles as spiders and bumble bees tend to be more contexts specific. Specifically, the bumble bee and spider roles appeared to be more significant in longer established subsidiaries (longer than 50 years) while the bumble bee role appeared to be important in newly established subsidiaries also.

FACTORS AFFECTING INTERNATIONAL STAFFING

Host Contextual Factors

(a) Political Factors:

Political risk conditions create an environment of uncertainty and political exposure (Sundaram and Black, 1992). Needing to manage this uncertainty, MNEs may act to exert control over the situation by sending more PCN employees and imposing policies and practices prescribed by headquarters (Pucik, 1992).

(b) Legal Factors:

The legal system in the host country can determine a company's management staffing philosophy (Von Glinow and Teagarden, 1988; Welch, 1994). MNEs may need to use more expatriates when operating in politically unstable regions and comply with host legislation on employment, such as constitution of workforce in overseas subsidiaries.

(c) Economic Factor:

The economic factor relates to the basic economic position and extent of economic development of a country or countries in a region from the perspective of investment by the MNE (Schuler *et al.* 1993). The most relevant indicators of the economic factor are specific prosperity and purchasing power. Paauwe and Dewe (1995) have argued that the differences in purchasing power and competition in the local or regional labor market should be taken into account in IHRM. Escalating costs have moreover encouraged MNEs to consider replacing expatriates with local managers (Brewster and Scullion, 1997). Erdener and Torbiorn (1999) argued that the use of HCNs might increase transaction costs if managerial talent in the local country is scarce. Tung (1982) discovered that USA and European firms tended to use

parent-country nationals (PCNs) in less developed nations, but preferred host-country nationals (HCNs) in countries classified as developed.

(d) Socio-cultural Factors:

Cultural distance is another potential determinant of management staffing policy. Evans (1986) argued that global firms select and retain those people in any given countries who most closely fit with their own cultural values. The view of Evans has been supported by many scholars, such as Boyacigiller (1990) and Welch (1994), who stated that the closer the host country is culturally, the more likely it will be seen as a desirable foreign posting, or pose less problems for expatriate and family adjustment. Hossain and Davis (1989), however, argued that socio-cultural factors are perhaps the most important variables that internationally operating managers must take into consideration. Firms gravitate towards staffing patterns that give the lowest risks in relation to cultural frictions between the parent and the subsidiary, and help reduce transactions costs (Erdener and Torbiorn, 1999). The socio-cultural factor is also related to the host labor market. The limited availability of management and technical skills in some countries is one of the major reasons for employing expatriates and management transfer in MNEs (Scullion, 1994).

Firm Specific Factors

The firm-specific factors mainly include international strategy, international organization structure, organizational culture, stage or mode of internationalization, size of international operation, international experience, type or niche of industry, reliance on international markets, top management's perception of home HRM and economic ownership (Hamill, 1989; Schuler *et al*, 1993; Shen, 2006; Welch, 1994).

Other Factors:

Trust and personal moral merits have been identified as the other factors that play a significant role in international staffing (Shen, 2006).

Feasibility of International Staffing

There has been lot of debate on the utility and viability of international staffing over the years, particularly after the global economic slowdown. According to Dowling & Welch (2004), there are many key aspects for this debate. They are: supply side issues, demand side issues, expatriate performance and expatriate failure, performance evaluation, costs and finally career dynamics.

Supply side issue

There is growing recognition that shortages of international managers are a significant problem for international firms and frequently constrain the implementation of global strategies in these firms. There is huge demand and supply gap after the September 2001 attack on the world trade centre. People are reluctant to travel abroad particularly due to international terror threat. But firms are encouraging employees to work abroad and gain handful of international experience there by enhancing their skill set.

Further, dual career problems and disruption to children's education are seen as major barriers to future international labor mobility in many different countries and pose considerable restrictions on the career development plans of multinationals (Mayrhofer & Scullion, 2002) and are now considered a worldwide trend that is posing a major dilemma for both multinationals and employees alike. Second problem in supply side issues is that participation of female workers is very low, particularly in Asian sub-continent. This also aggravates the supply of international assignees. Another area for concern is that there is growing recognition where companies are seen to deal unsympathetically with the problems faced by expatriates on re-entry managers will be more reluctant to accept the offer of international assignments (Lazarova & Tarique, 2005; Scullion, 2001). The supply side issue is aggravated by the lack of talent management system by the MNCs which may be defined as approaches to recruit, retain, develop and motivate a competent cohort of managerial talent with appropriate international experience in the global business environment (Briscoe & Schuler, 2004; Scullion & Collings, 2006b).

Costs

Cost associated with the international assignment is another area for concern and is grossly neglected by the MNCs. Generally, the cost of international assignment is three to five times of home nation gross salary. But the paradox is that the main focus for international assignment is not the cost issues, but the strategic formulation and process involved in the assignment. This is how the HRM planning fails to evaluate the performance and return on investment associated with the international assignee.

Demand side issues

Setting aside the cost and supply side issues, there is also a demand side issue in international staffing, particularly in emerging markets like India, China and the Eastern Europe. Due to opening up of economy by these nations, the inward flow of FDI and sourcing has led to manifold increase in demand of the foreign managers. The rapid increase in number of small and medium size firms, there is a huge crunch of talented managers in these nations. Even after finding the right expat manager for the job, there are number of factors which make their performance problematic.

Expatriate performance and expatriate failure

A key issue in the international staffing literature is the cost of expatriate failure, which can be in the form of salary, training costs, and travel and relocation expenses. The other cost associated with the expat failure is damage in relationship with the host country firm and also the market share. Research suggests that the latter should be considered as the most significant costs by multinationals, as damage to reputation in key strategic foreign markets or regions could be highly detrimental to the prospects of successfully developing international business in particular regions (Schuler, Budhwar, & Florkowski, 2002).

Expatriate performance

Managing the performance of individual expatriate employees emerges as the penultimate challenge for MNCs in the context of the traditional expatriate assignment cycle. Mendenhall and Oddou (1985) point to the complexity added to this process by the fact that expatriates must meet the often conflicting expectations of HQ management and subsidiary colleagues. Indeed, it has been argued that there are a number of factors which impact on the performance of expatriate employees. These include technical knowledge, personal and family adjustment to the foreign culture, and environmental factors, political and labor force stability and cultural distance from one's home culture (Cascio, 2006; Oddou & Mendenhall, 2000). Designing the performance appraisal system for these expat managers is definitely not an easy task as it involves external factors also such as the foreign exchange fluctuations on the business operations.

Career issues

The changing nature of international career is another area for concern for the MNCs. Changing attitudes towards the international assignment may lead to rejection of the assignment by the managers. This may be also due to decreasing commitment of the employees towards the parent company. Free international labor mobility has also given an area for concern for the MNCs to manage and control foreign assignees. Thus, in ensuring their employability, individuals are increasingly concerned with enhancing their social capital, marketability and employability in the broader labor market rather than limiting their progression to the organization within which they work.

ALTERNATIVE FORMS OF INTERNATIONAL ASSIGNMENTS

Short-term International Assignments

It has been argued that short-term assignments are the most popular form of non-standard assignment (Tahvanainen et al., 2005). Typically, what constitutes 'short-term' is company specific, but it could be considered an assignment longer than a business-trip but shorter than a year's duration. Short-term international assignment can be defined as a temporary internal transfer to a foreign subsidiary of between one and twelve months duration (Collings et al, 2007). These assignees can be suitable for organizational, or to a lesser degree individual, development objectives, which could be achieved at a fraction of the costs associated with traditional expatriate assignments (Scullion & Collings, 2006). Based on their exploratory empirical study Tahvanainen et al. (2005) identify the following situations in which short term assignments are used in MNCs: (1) Problem solving or skills transfer; (2) for control purposes and; (3) for managerial development reasons. The circumstances in which short-term assignments are used merits further empirical research and that an exploration of the variables which impact on their usage would be particularly useful (Collings et al, 2007).

Key advantages associated with short-term international assignments include increased flexibility, simplicity and cost effectiveness (Tahvanainen et al., 2005). Alongside these benefits, common disadvantages include: (1) taxation issues, particularly for assignments over six months

duration, (2) the potential for side-effects such as alcoholism and marital problems (3) failure to build effective relationships with local colleagues and customers and (4) work visas and permits (Tahvanainen et al., 2005).

Frequent Flyer Assignments

Frequent flyer assignments are also known as the international business travelers (IBT). The IBT has been defined as “one for whom business travel is an essential component of their work” (Welch & Worm, 2006). The evidence suggests that they are an important alternative to the traditional expatriate assignment for MNCs (Michailova & Worm, 2003). IBTs provide the advantage of face-to-face interaction in conducting business transactions without the requirement for their physical relocation (Collings *et al*, 2007). IBTs are most appropriate for conducting irregular specialized tasks, such as annual budgeting meetings or production scheduling in MNCs but more crucially they can develop important networks with key contacts in foreign markets. Further, they are useful in maintaining a personal touch in managing subsidiary operations without the need for relocation (Collings *et al*, 2007).

IBTs offer a number of advantages to MNCs and individuals. Firstly, they allow for face-to-face interaction with subsidiary employees which develops their social capital without the need for their physical relocation and thus minimizes interruption to the individual’s careers and reduce costs to the MNC (Collings *et al*, 2007). Further, the impacts on family life should not be under estimated. Indeed, Welch and Worm (2006) suggest that many short trips that followed one upon the other created more serious family problems than more infrequent yet longer absences. There is also evidence that many firms underestimate the impact of frequent business travel on individual’s work loads and fail to allow time for IBTs to catch up on the work back-log when the return to the office. In a similar vein, there can be significant pressure to cram a huge amount of work into a business trip (Scullion & Collings, 2006).

Commuter and Rotational Assignments

Commuter assignments are defined as where an assignee commutes from their home base to a post in another country, generally on a weekly or bi-weekly basis (PricewaterhouseCoopers, 2005) while the rotational assignments are defined as where staff commute from their home country to a workplace in another country for a short period followed by a period of time off in the home country (Welch & Worm, 2006).

Global Virtual Teams

In global virtual teams, members are geographically dispersed and coordinate their work predominantly with electronic information and communication technologies. In global virtual teams, staffs do not relocate to a host location but have a responsibility to manage international staff from the home base (Dowling & Welch, 2004) and generally lead to some sort of jointly achieved outcome involving a degree of intercultural interaction.

CONCLUSIONS

Expatriate assignments do offer a number of potential benefits as well as the well-documented costs to MNCs in staffing their foreign operations. The challenges associated with such assignment have resulted in international assignments gaining a degree of critical attention from scholars in the field. In this regard we argue that both international organisations and academics must take a more strategic and holistic view of staffing arrangements in the international context. The first key decision to be made by top managers in MNCs is whether or not a traditional expatriate assignment best meets the organizational requirements on a case-by-case basis.

A key challenge for practitioners in MNCs will be to develop effective international HRM policies and practices to ensure the effective implementation of alternative international assignments. Our review suggests that a standardised approach to international assignments would not be effective and that it would be essential to develop HR policies and procedures that reflect differences in the various forms of alternative international assignment.

Our review also points to the need for researchers and practitioners to pay more attention to family issues relating to alternative forms of international assignment. Little is known about the impact of alternative forms of international assignment on the family and the employees' work/life balance. On the one hand it has been argued that an advantage of short-term international assignments is that they do not directly affect the career of the partner or children's education. More research is needed to guide researchers and practitioners in devising HR policies to respond to and anticipate some of the little understood side-effects of alternative forms of international assignments.

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