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## Expatriation Practices in the Global Business Environment

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### ABSTRACT

Globalisation, characterised by advanced communication and distribution technologies, e-commerce, new strategic alliances, organisational restructuring and the 'internationalisation' of operations, demands new approaches to international human resource management. The transformation from international to global business necessitates a parallel paradigm shift in international human resource management theory, especially as it applies to the management of expatriates in the information era. Earlier assumptions and perspectives will need to be replaced by broader definitions and conceptualisations. This paper examines the foundations of earlier views of expatriate management, and suggests ways in which a new paradigm, more reflective of globalisation, might be developed.

### INTRODUCTION

Developments in the global business environment such as the emergence of the Asia Pacific region as a world economic centre rivalling the existing centres of North America and Europe, the expanded role of the World Trade Organisation in facilitating international trade flows, and the formation of international economic and political forums such as the Asia Pacific Economic Conference, European Union, North American Free Trade Association, and expansion of the membership and status of ASEAN, have significantly transformed the arenas in which international business occurs. Distinguished from earlier stages of internationalisation by major industry restructuring driven by advanced communication and information technologies, the new global context has witnessed significant alteration to the structures of international operations, as well as to their available labour markets and staffing requirements.

Nearly two decades ago Laurent (1986) observed that "if the field of human resource management is in a state of adolescence, then international HRM is still at the infancy stage" (p96). Since then, human resources management (HRM), as an academic discipline and as a framework for practice, has forged ahead (see, for example, Lepak and Snell, 1999; or Ulrich, 1998), whilst International Human Resources Management (IHRM) has been less progressive (see Scullion and Brewster, 1999; or Selmer, 1998), allowing contemporary international business practice to outstrip theory. This has been due both to the pace of change in international operations towards globalisation, and to the spasmodic nature of much of the empirical research which underpins existing IHRM theory. Much of the early research into IHRM was predicated upon limited or non representative samples,

arguably flawed definitions and assumptions (discussed in the following section), and pervasive North American and European perspectives. Consequently, the dominant IHRM literature is increasingly unsustainable in a rapidly globalising business environment.

This article contributes to existing theory by developing a contemporary perspective which will more accurately reflect and guide international human resource management practice, especially in the area of expatriation. It critically reviews traditional theories, and explores more recent academic and practitioner literature, and presents some suggestions for the development of a contemporary approach for the management of international employees.

## THE GLOBAL CONTEXT OF HRM: SOME EARLY VIEWS

The foundations of IHRM theory owe much to the US studies of Rosalie Tung (1980, 1982), later developed by Black (1990), Black et al (1991) and Mendenhall and Oddou (1985, 1987) in the US, and by such authors as Brewster (1991) in the United Kingdom. Almost all of these studies were based on limited samples and focused on Western expatriates assigned offshore for relatively long periods (for example, 5-10 years) to the foreign operations of multinational corporations (MNCs). Companion cross-cultural research conducted by authors such as Hofstede (1984), Hofstede and Bond (1985), and more recently, Trompenaars (1993) and Brake et al (1995), supported and reinforced similar findings. These earlier studies generally concurred that expatriates were home country employees (usually managers or technical staff) who were assigned by their MNCs to "foreign" (ie. overseas and culturally different) locations for relatively long periods of time. Further, some studies have implied that the process of expatriation inherently involved considerable "hardship" for expatriates and their families. Appropriate to their time, such studies now need further development to accommodate contemporary international business practices and to constructively contribute to the development of modern IHRM theory.

There is only a small body of literature which challenges these earlier studies. For example, Adler (1984, 1987) raised issues with respect to the acceptability of female expatriates, and scholars such as Brewster (1991, 1993), Selmer (1998) and Torbiorn (1982) examined the relative effectiveness of European versus American expatriates, and new approaches to the management of expatriates were introduced by Dowling and Schuler (1990), Schuler, Fulkerson and Dowling (1991) and Welch (1994). There is also a small, but growing body of research from the Asia Pacific region (eg. Chen, 1995; Frenkel and Harrod, 1995; Moore and Jennings, 1995; Shadur and Tung, 1997; Schak, 1997) which challenges earlier IHRM theory from a "contextual" perspective (eg. the effects of socio cultural influences on regional employment practices), and which reflects the need for new perspectives of expatriation, as discussed later in the paper.

Thus, earlier perspectives of IHRM theory and expatriation tend to include a series of underlying assumptions which are difficult to sustain in the newly globalised business environment. These assumptions are listed and discussed below, and further analysed in a subsequent section of this paper with regard to more contemporary perspectives.

Assumption 1: IHRM is essentially concerned with the management of long-term Western Parent Company Nationals (PCNs, or expatriates) employed by multinational companies.

This assumption is explicitly contained in the term "expatriates" (as defined earlier in this paper), and is inferred in the studies of Tung 1980, 1982; Black, 1990; Black et al, 1991; Mendenhall and Oddou, 1985; and Enderwick and Flodgson, 1993, which focused generally on expatriates (or PCNs) who spent between 5-10 years working for US or European companies in 'foreign' locations. These expatriates were usually characterised as senior managers representing their organisations as general managers, marketing or accounting executives, or auditors, and they often acted as conduits for the transference of company culture and business practices to their overseas subsidiaries.

Only a few studies have centred on professionals involved in shorter-term international assignments such as those undertaken by management and engineering consultants, or executives

seeking to develop new business in international markets, who frequently visit overseas countries as part of their international responsibilities. There is, however, a small body of literature on 'sojourners' or relatively short-term visitors to new cultures (Church 1982:54). These references are clearly not recent, and they reflect an earlier and dominant IHRM research based view with regard to expatriate managers and technical specialists on long-term overseas assignments.

**Assumption 2:** The 'failure' rates for such expatriates are extremely high.

This suggests that the 'failure' rates of expatriates are extremely high, and the consequence is that the costs of international business operations are prohibitive. Various authors have cited rates of between 25 - 70% for expatriate failure (for example, Tung, 1980; Black, 1990; Black et al, 1991; Mendenhall and Oddou, 1985, 1991). However, in recent years, several authors (for example, Harzing, 1995; Forster 1996) have suggested that there is little evidence to support the validity of high expatriate 'failure' rates. Harzing sharply criticised the data collection methods used in many of the important research studies which concluded that expatriate failure rates were high, and Forster, by critically examining the relevant literature, argued that there was inadequate evidence to support the assumptions.

There are a number of reasons why the earlier research on "expatriate failure" might be questioned. Apart from the likelihood of insufficient or unrepresentative research samples (eg. student cohorts, small or biased industry samples, and Western cultural emphases or biases), the absence of large-scale studies of regional expatriates (eg. Japanese, Malaysian, Singaporean, Australian or New Zealanders), and perhaps more importantly, the very limited definition of "failure" (ie. premature return from the overseas assignment - Schuler and Dowling 1999), suggest that this assumption is difficult to sustain. It is interesting to note that by the 1980s that researchers had begun to refer to the 'Japanisation' of British industry, presumably principally because of the positive efforts of Japanese expatriates, but this does not seem to have had much impact on prevailing views in the IHRM literature in relation to the success rates of expatriate managers, possibly reflecting an ethnocentric bias or that IHRM was not sufficiently in touch with other discipline areas of international management.

There are other related issues associated with the quality of the IHRM research in the 1980s and early 1990s. Not only was IHRM a new and developing field, but opportunities for research were limited, cross-cultural knowledge was often minimal and US or European multinationals dominated the international business environment. Despite these limitations, at least these early IHRM research studies established that a main reason for expatriate failure was the inability of expatriates and their partners or families to adjust to the cross-cultural demands of the new and different host country environment. Notwithstanding the potential seriousness of these problems, however, much of the available evidence has indicated that relatively few corporations have taken adequate preparatory steps (for example, selection based on cross-cultural adaptability, pre-departure cultural or language training) to prepare their staff for overseas assignments (see for example, Phatak, 1994; Dowling, Schuler and Welch, 1998). As Scullion and Brewster (1999) noted, " ... it should not be assumed that the majority of multinational companies adopt a systematic and coherent approach to (expatriate) selection" (p 46).

**Assumption 3:** The 'hardship' of international relocation demands considerable 'compensation' (especially financial) to encourage Western Expatriates to accept such assignments.

Early IHRM theory assumes that overseas relocation is always inherently problematic, no matter what host country is involved or how similar cultural and socioeconomic circumstances are to the home country. Within this context, American expatriates assigned to South America, the South Pacific or South Australia would be assumed to experience similar levels of alienation and hardship, and therefore expect to receive similar compensatory payment for the relocation. Traditional approaches support a strong nexus between international assignments, hardship, and financial compensation, despite evidence to the contrary (discussed later), and the contemporary

realities of business in many host countries. These ideas have also been challenged by resentment towards inflated expatriate remuneration packages by host-country nationals (see, for example, Bedi, 1998; Fung and Nankervis, 1995; Wes, 1998), and increasingly, by equity issues between expatriates and their home-country colleagues. It would be difficult to maintain the argument, for example, that a posting to modern metropolises such as Hong Kong, Singapore or Tokyo should necessarily be regarded as hardship. Whilst it is recognised that there may be some financial, and linguistic and cultural difficulties associated with these locations for some potential expatriates, it is the responsibility of HRM professionals to ensure that internationally assigned employees are chosen, and appropriately supported, in ways which reflect not only their managerial and technical abilities, but also their capacity and willingness to undertake such positions. Preparation and support functions (eg. language and cultural training; and legal; personal and family assistance) assume great importance in this context.

Assumption 4: Globalisation will result in the increased use of expatriates.

This assumption has been challenged both logically and empirically in view of the changing nature of international business, and the economic realities of globalisation (see, for example Sheley, 1996; and Solomon, 1999). Increasing global competition has resulted in a greater emphasis on cost effectiveness, with the result that expatriate failure rate is less likely to be acceptable. Further, globalising trends have meant that locally engaged staff were now more likely to have the requisite knowledge and skills. Added to this, electronic and internet based communication capabilities have further reduced the need for high levels of expatriate representation. Although there is only limited empirical evidence to support a reduction in the number of expatriates (eg. Allard, 1996; Aschkenasy, 1997; Beamish and Inkpen, 1998; Bedi, 1998), the focus of global businesses on cost - reduction and increased productivity, more use of local staff, and the impact of less labour - intensive e - commerce based international operations, has suggested that this may lead to an actual decrease in the deployment of expatriates.

The globalisation of business activities and recent dramatic shifts in regional and world economies demand the development of new perspectives to inform contemporary international business especially in relation to IHRM. The assumptions upon which the main body of IHRM research and scholarly literature have been constructed, namely that IHRM is predominantly concerned with the hardships experienced by relocated Western PCNs, and the subsequently high ' failure' rates of those staff, are in question in the global era of highly efficient international transport systems and internet based communication. Further, there are signs that changing technologies may also impact on the numbers of expatriates required, as will the increasing socio-economic status and capabilities of the work forces of formerly developing nations, particularly in East Asia. The remainder of this article pursues these issues, using current literature to illustrate some of the directions which need to be followed in order to achieve such aims.

## CONTEMPORARY ISSUES IN IHRM

New forms of international organisations and staffing.

It is becoming increasingly clear that a conceptualisation of international business which sees multinational companies with their headquarters in a Western home country and subsidiaries in foreign countries as the main form of internationalisation, is only one of several possible configurations. Phatak (1994), and Dowling et al (1995), amongst others, indicated that multi-domestic operations, joint ventures and strategic alliances were increasingly common forms of business structures across regions or across the world. As Scullion and Brewster (1999) pointed out, there have been significant changes in the nature of international operations which have resulted in " ..a growth in expatriation which does not follow the traditional from - developed - to underdeveloped country pattern" (p 48).

Further, international corporations are increasingly utilising alternative organisational forms in different countries. For example, many major international airline companies belong to global

strategic alliances in order to obtain market-share, to benefit from economies of scale, and to enable technology transfer and facilities-sharing. Cathay Pacific relocated from Hong Kong to Sydney and subsequently outsourced its information technology (IT) section. British and Qantas Airways access flight crews from around the world in order to reduce staff relocation costs and to cater to the needs of passengers from different cultural backgrounds. And in other industries, some organisations (for example, Snap Printing, Dome Coffee Shops) have developed franchise arrangements which are particular to their operations in countries such as China, Singapore and Malaysia. In the higher education export industry, American, Australian and British universities commonly conduct their courses in partnership with local agents in offshore locations, or provide on-line materials with only minimal direct home country involvement. And Software developers use modern communications technology to link their operations around the globe so that as one group of software developers is leaving work for home in the evening, they hand over their tasks to another group in another location and time zone to continue the process.

Changes in organisational structures and relationships with overseas operations, combined with faster and more accessible communications technology, demand quite different staffing approaches. As one author bluntly suggested, "expatriates are not only an expensive hangover from the Colonial era, but they are potentially counter-productive and disruptive" (Hailey, 1996:32). Hailey's comments presumably refer to the inadequacy of expatriate preparation for international assignments, to their frequently reported 'failure' due to cross-cultural communication issues, or to their often inappropriate business or personal behaviours whilst on overseas assignments.

Undoubtedly many companies will continue to retain expatriates in their international operations for control purposes, or because of their specialist expertise in less developed countries, but IHRM theory will increasingly need to broaden its focus in order to incorporate new forms of international staffing. A variety of terms have been used to encompass these newer staffing options, including "inpatriates" (an American term used to describe foreign expatriates based in the US, according to Dowling et al., 1999:7); "short-termers" and "medium termers" (Laabs, 1999:43); "itinerant business travellers" (Fish and Wood, 1997:39); and "sojourners" (Church, 1982:540), perhaps more broadly defined. Some other authors have suggested that they may be better described as "international managers" (Barharn and Wills, 1992:1), "global managers" (Pucik and Saba, 1998), or more disparagingly, as "globetrotters" (Allard, 1996:38) or "multicultural vagabonds" (Richards, 1998:28).

Pucik and Saba effectively profiled the global manager as "an executive who has a hands-on understanding of international business, has an ability to work across cross-cultural organisational and functional boundaries and is able to balance the simultaneous demands of short-term profitability and growth" (1998:45). Morris et al (1997) also observed that overseas assignments are no longer just restricted to senior managers, and that a "multi-level perspective" (p49) needs to be adopted, to encompass a range of international employees, including project supervisors, specialist technical staff providing advice and support, third country and host country staff. Modern IHRM theory must be sufficiently flexible to accommodate all these options.

In summary, traditional approaches to expatriation are being challenged by these emerging global organisational arrangements. That is, the need for long term expatriation is being facilitated through alternative organisational structures in offshore locations, new working arrangements facilitated by advanced electronic communications and internet technologies, frequent business travel or short term assignments, and a more open and flexible attitude to the staffing of offshore operations by international corporate managers.

## New HRM Strategies and Practices

The highly competitive business environment will require non-traditional approaches to the staffing of international operations essentially because of the increasing demand for flexible and differential employee conditions. They include such HRM techniques as local or international

sourcing and outsourcing (Strawn and Nurney, 1995:65; Reynolds, 1997:118); shorter-term contracts and "single status" (ie. expatriates who are unattached, or who are unaccompanied by their partner and families) assignments (Solomon, 1999:38). This is to avoid the persistent 'trailing partner' syndrome. There is also an emerging preference for recruitment from career expatriates already in the host-country, as well as local residents and third country nationals.

In fact, there is an ongoing debate over 'localisation', which concerns both the employment of host country nationals in preference to expatriates and the nature of comparative employment conditions, especially remuneration systems. It concerns issues of effectiveness, and both internal and external equity, as well as trust and control aspects. Wes (1998) pointed out that "most transitional and developing countries want their own citizens to hold important crucial decision-making and senior jobs" (p61). At least in the Asia-Pacific region, following the 1997-1998 Asian Economic Crisis, it appears very likely that the numbers of expatriates managers deployed will decline due to a sharp focus on cost minimisation. Several authors (eg Shiel, 1998; Anonymous, 1998; Solomon, 1999; Hause; 1998) have reported substantial reductions in the numbers of expatriates employed by US and Australian companies in response to cost-reduction imperatives and the impact of currency fluctuations in the Asian region. Beamish and Inkpen (1998) suggested that some Japanese companies are similarly reducing the numbers of their expatriate employees in response to their difficulty in overcoming employee resistance to relocation and their growing recognition of the availability of skilled local staff.

## New Skills and Qualities

IHRM theory has quite properly emphasised the importance of expatriates' personal qualities and cross-cultural attitudes and skills, as well as their specific technical or managerial competencies for designated overseas postings. Black and Gregersen (1999) have recently summarised the characteristics of successful international managers as having "a drive to communicate, broad-based sociability, cultural flexibility, a cosmopolitan orientation and a collaborative negotiation style" (p57). Such an approach effectively reinforces the need for international business people to demonstrate different skills and competencies when involved in business or social dealings in foreign environments. But the reality may be even more complex. As Shaeffer (1989) suggested, international business requires a series of highly developed perspectives and skills which include "different information, different skills and a much greater tolerance for ambiguity and uncertainty" (p29). Mamman (1997) added other personal qualities including "flexibility, self-confidence, self-efficacy, openness, motivation, orientation to knowledge, cultural empathy, openness to information and optimism" (p41). He also suggested that the selection of international staff should take into account their "socio-biographical identity" (p55), for example, their age, gender, religion, and ethnicity, in order to ensure their acceptability and an easy transition in the overseas location.

There is little doubt that early IHRM theory was correct to emphasise the additional cross-cultural and personal attitudes and skills required for effective management in foreign environments, although it must be remembered that the available empirical evidence suggests that relatively few international companies have provided such preparation for their international employees prior to their assignments (for example, Dowling, Schuler and Welch, 1998; Davidson and Kinzel, 1995; Anderson, 1998).

Some authors have asserted that IHRM theory needs to accommodate a 'staged' approach to the selection and preparation of international staff appropriate to their level of interaction with the host-country, its cultures, customs and business practices. Thus an itinerant business traveller might only require focused information on the host country's business practices (for example, visas, banking systems, legal aspects etc), whilst a project supervisor or sojourner may need more practical details on accommodation, transport, diet, and practical aspects of social etiquette. A more traditional expatriate would need much more detailed information and training on culture, customs, language and living conditions, but not if sourced from within an already resident expatriate population. Tung (1982), for example, suggested such a staged approach to

enculturation based on the expatriate's need to know, as does Selmer (1998), who noted three distinct forms of adjustment, which required different forms of preparation, work adjustment, interaction adjustment and general adjustment (p81). Anderson (1998) suggested a commonsense approach to the analysis, which would result in the required level and type of pre-departure or in-country information and training for different kinds of international employee. That is, trainee analysis, host-country analysis and overseas position analysis – resulting in diverse information and training responses.

## EXPATRIATION IN THE GLOBAL ERA

As previously discussed, it is becoming clear that the nexus between international assignments, 'hardship', failure and highly inflated 'compensation' packages is being severed as global structures change, and as different labour markets emerge to meet the staffing needs of these operations. Brief business visits from the parent company, projects and shorter-term international assignments, joint ventures, franchise arrangements, and the increased employment of local expatriates and overseas-educated host-country nationals (Beamish and Inkpen, 1998; Morris et al, 1997; Bedi, 1998) have removed much of the justification for expatriate 'compensation'. Further, Fish and Wood (1997) suggested that international managers will require quite different skills in their future overseas assignments, being skills which were perhaps best obtained through practical experience than by means of structured training programs. These new competencies included "transformational, international, transnational communication and foreign language skills" (p45).

By definition, 'international skills', include a broad knowledge of human resource management environments and practices in different countries, including not only knowledge of HRM and industrial relations systems, but also knowledge of the effects of national culture and values on work ethics and customary workplace behaviours. Other opportunities include the use of structured mentoring programs for all kinds of international employees, and corporate initiatives to seek appropriate work for spouses and partners in host-countries. This latter issue may become more urgent if as some authors have suggested, 25% of these 'trailing partners' will be male in the near future (Wentworth, 1999:22; Harvey and Wiese, 1998).

IHRM theory has previously reinforced the relationship between expatriation and apparently inequitable salaries on the basis of compensation for hardship experienced. This argument is less easy to sustain in the face of some contemporary evidence which indicates moves towards 'flexpatriate' payment systems (Senko, 1990; Dolins, 1998), and away from fixed expatriate packages based upon salary adjustments and allowances. For example, a recent survey by Foster-Higgins (1996) reported that 34% of their respondents had actively reduced expatriate payments, in particular with the replacement of 'hardship allowances' or foreign service premiums by one-off lump sum "mobility premiums". Another study in the same year found that 31% of their 351 multinational companies provided no foreign service premiums (Sheley, 1996:64).

Cost concerns coincide with claims of inequity in payment between expatriates and their home and host country colleagues, and the salary 'localisation' campaigns in countries such as Hong Kong, Singapore and Malaysia in recent years (eg. Fung and Nankervis, 1995; Wes, 1998). The Asian economic crisis of 1997-1998 provided an opportunity for many multinational corporations to review both the numbers of expatriates they employed and their remuneration packages. This is unsurprising if, as one article suggested, that "Motorola's payroll of 140 expatriates working in China exceeds the payroll of its 5,600 local employees" (Anon, 1998). Whilst this may have reflected Motorola's need to maintain control of its burgeoning Chinese operations, or more simply its inability to source sufficient numbers of skilled local staff, it raises that issue that the company could potentially benefit from a re-assessment of the overall balance between local and expatriate employees in its short term and longer term operations in China.

Other authors (for example, Rundle and Yardley, 1999) have suggested that such revisions of expatriate remuneration systems merely reflected the broader aspirations of international

companies to cut their costs in all areas of their operations, in order to maximise their competitiveness in a global marketplace. Such imperatives also include lower production and distribution costs, the downsizing and restructuring of their operations (Rundle and Yardley, 1999:21) and the increasing use of host country employees in preference to expatriates (for example, Shiel, 1998; Lasserre and Ching, 1997). On the latter point, Beth (1998) has indicated that "Asian expatriate managers are giving an excellent account of themselves. Because of the similarity of Asian core values, it's easier for them to adapt to the cultures of host countries" (p1). Wes (1998) echoed such views, warning that host country nationals "... are reminded of a perceived 'inferior status' each time they see the expatriate drive past in a company provided car on the way to the company paid for foreigners' club" (p65). Whilst these sentiments may be representative of only a minority of Southeast Asian authors, they tend to reinforce the perspective of 'localisation' discussed earlier in this paper.

In summary, the positive development of IHRM requires a closer integration between domestic and global HRM strategies and practices, involving careful consideration of the specific nature of their assignments in the particular host-country, the relative degree of 'cultural toughness', and the nature of the relationships between the international employee and management staff in disparate location. Other important considerations include the depth and level of interaction required (for example Halley, 1996; Inkson et al, 1997; Fish and Wood, 1997; Anderson, 1998; Pucik and Saba, 1998; Selmer, 1998; Black and Gregersen, 1999), comprehensive selection methods to choose the right applicants and families in the joint decision to relocate, and pre-departure information and training programs appropriate to the nature of the assignment (for example, Fish and Wood, 1997; Anderson, 1998; Pucik and Saba, 1998).

## CONCLUSION

The above discussion of early IHRM theory and more contemporary practice in IHRM suggests that the pace of international business practice is challenging IHRM theory and its assumptions in several ways. Accordingly, it no longer seems inevitable that expatriate middle and senior level managers will be employed by MNCs to directly oversee their international operations in 'foreign' locations. Given the variety of alternatives available in restructured global operations, long term expatriation as a viable or cost effective option is likely to decline in importance.

New approaches to international business will require innovative approaches to international staffing, including a more inclusive understanding of the role of the international manager and professional; innovative strategies for their selection and employment conditions; a more holistic recognition of their relationships with the parent company; and importantly, flexible payments carefully calibrated with their specific skills and competencies in relation to their identified competencies. Scullion and Brewster (1999:49-50) urged the implementation research programs which focused on non-multinational companies, especially those engaged in strategic alliances or joint ventures, small and medium size companies, and those with their headquarters in a broad range of both developed and developing countries. They also suggested that more research should be conducted on the links between domestic and international HRM strategies and practices, including reverse transfers between subsidiaries and the company's headquarters, and on the common phenomenon of "interim managers" (p 50), or frequent business travellers.

Traditional approaches to expatriation and IHRM are increasingly out of step with contemporary global business realities. Essentially, a new approach to IHRM should recognise that for many companies, international operations are increasingly 'normal'; reflect the reality that globalisation is making international assignments more common, more frequent and shorter term in duration, and will be based on the understanding that into the future, those who work for international corporations will be increasingly recruited offshore from a wide variety of labour markets. In short the traditional role of the expatriate is likely to decline. The challenge for academics is to develop new frameworks from research based activities, and the challenge for international human resource practitioners is to test and shape these solutions to their particular global business contexts.



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