CHAPTER 3
INTERNATIONAL STAFFING

3.1 INTRODUCTION

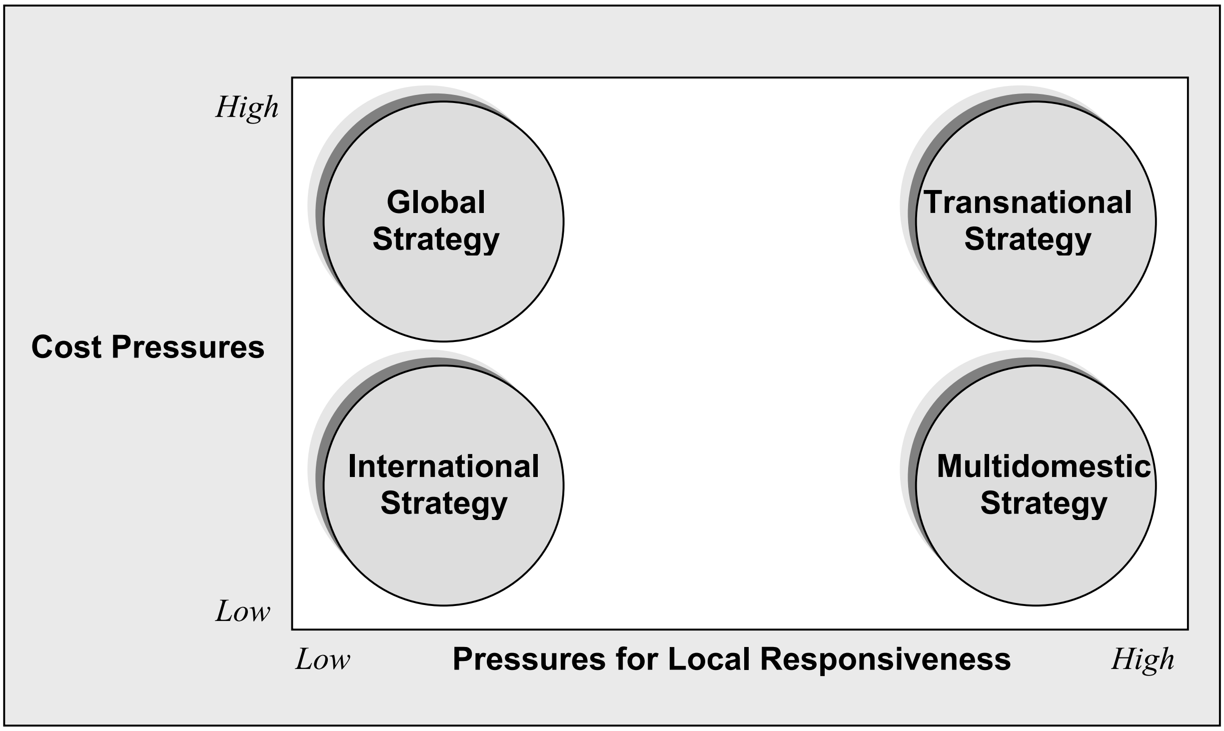
The last decade has witnessed an accelerated growth of large multinational enterprises, many of which operate in 25 or more countries. In 1994, the top 25 MNEs had sales ranging from US$55 to US$175 billion a year. Increasingly, these large MNEs have shifted sales and production operations to countries closer to their widespread global markets. A number of them now garner more sales internationally than in their home country (e.g. IBM). The same often holds true of share of corporate profit. An important corollary to this location of sales and manufacturing operations outside the home country is the assignment of expatriates to key positions in international units. In the early years, almost all such movement was from the home country to the international subsidiaries or joint ventures. For example, several decades ago one MNE had over 40 000 employees and managers on expatriate status at the same time. However, today a growing number of MNEs are using third country nationals to staff foreign subsidiaries or are bringing key staff of their foreign operations into corporate headquarters (inpatriates), or are making intra-region transfers for career development and other purposes (Peterson, Sargent, Napier & Shim, 1996:215).

The international staffing process is of considerable importance to an international enterprise. Virtually any type of international problem, in the final analysis, is either created by people or must be solved by people. Hence, having the right people in the right place at the right time emerges as the key to a company's international growth. The staffing problems facing international enterprises are more complex than those in domestic enterprises, and inappropriate staffing policies may lead to difficulties in managing international operations. The international literature indicates that expatriate failure is a persistent and recurring problem, particularly for multinationals in the USA. Frequently, the human and financial costs of failure in the international business arena are more severe than in domestic business. In particular, indirect costs such as loss of market share and damage to international customer relationships may be considerable. The shortage of international managers is becoming an increasing problem for international enterprises. A survey of 440 executives in European enterprises claimed that a shortage of international managers was the single most important factor constraining corporate efforts to expand abroad. Almost one-third of the executives surveyed had experienced difficulties in finding managers with the necessary international experience and orientation. The findings of the survey suggest that the successful implementation of global strategies depends, to a large extent, on the existence of an adequate supply of international experienced managers (Scullion, 1994:86). In support of Scullion's statement above, Peterson et al (1996:215) state that there is growing literature that argues the need for a link between international corporate strategy and human resource management policies that apply to expatriate staff in foreign subsidiaries. As a result this chapter will focus not only on the different staffing policies available to MNEs and recent changes in international staffing, but also on some international strategies that may influence the global staffing decision.

3.2 INTERNATIONAL STRATEGIES

MNEs use four basic strategies to enter and compete in the international environment: an international strategy, a multidomestic strategy, a global strategy and a transnational strategy. The appropriateness of each strategy varies according to the extent of pressures for cost reduction and local responsiveness. Figure 3.1 illustrates when each of these strategies is most appropriate (Hill, 2003:422).

Figure 3.1: Four basic strategies



Source: Hill (2003:422)

A link can be drawn between the internationalisation strategy and the staffing policy being followed by MNEs (Hill, 2003:611; Deresky, 2002a:391-392; Ball et al, 2006:546-549). MNEs following an international strategy will most probably implement an ethnocentric staffing policy, MNEs following a multidomestic strategy will most probably implement a polycentric staffing policy, while MNEs following a global or transnational strategy will most probably be implementing a geocentric staffing policy. Each of these strategies will be discussed in more detail in this section.

3.2.1 International strategy

MNEs that pursue an international strategy try to create value by transferring valuable skills and products to foreign markets where indigenous competitors lack those skills and products. Most international enterprises have created value by transferring differentiated product offerings developed at home to new markets abroad. Accordingly, they tend to centralise product development functions, such as R&D at home. However, they also tend to establish manufacturing and marketing functions in each major country in which they do business. But while they may undertake some local customisation of product offering and marketing strategy, this tends to be limited. In most international enterprises, the head office retains tight control over marketing and product strategy (Hill, 2003:422; Phatak, Bhagat & Kashlak, 2005:196).

An international strategy makes sense if an enterprise has a valuable core competence that indigenous competitors in foreign markets lack and if the enterprise faces relatively weak pressures for local responsiveness and cost reductions. In such circumstances, an international strategy can be very profitable. However, when pressures for local responsiveness are high, enterprises pursuing this strategy lose out, to enterprises that emphasise customising the product offering and market strategy to local conditions (Hill, 2003:422; Phatak, Bhagat & Kashlak, 2005:196). This strategy is also sometimes referred to as the home replication strategy (Griffin & Pustay, 2002:288).

3.2.2 Multidomestic strategy

MNEs pursuing a multidomestic strategy orientate themselves towards achieving maximum local responsiveness. A key distinguishing feature of multidomestic enterprises is that they extensively customise both their product offering and their marketing strategy to match different national conditions. Consistent with this, they also tend to establish a complete set of value-creation activities, including production, marketing and R&D, in each national market in which they do business. As a consequence, they are generally unable to realise value from experience curve effects and location economies. Accordingly, many multidomestic enterprises have a high cost structure. They tend to do a poor job of leveraging core competencies within the enterprises (Hill, 2003:423; Griffin & Pustay, 2002:288; Mellahi, Frynas & Finlay, 2005:303; Phatak, Bhagat & Kashlak, 2005:197-198).

A multidomestic strategy makes most sense when there are high pressures for local responsiveness and low pressures for cost reduction. The high cost structure associated with the duplication of production facilities makes this strategy inappropriate in industries where cost pressures are intense. Another weakness associated with this strategy is that many multidomestic enterprises have developed into decentralised federations in which each national subsidiary functions in a largely autonomous manner (Hill, 2003:423; Griffin & Pustay, 2002:288; Mellahi, Frynas & Finlay, 2005:303; Phatak, Bhagat & Kashlak, 2005:197-198).

3.2.3 Global strategy

MNEs that pursue a global strategy focus on increasing profitability by reaping the cost reductions that come from experience curve effects and location economies. That is, they are pursuing a low-cost strategy. The production, marketing and R&D activities of firms pursuing a global strategy are concentrated in a few favourable locations. Global enterprises tend not to customise their product offering and marketing strategy to local conditions because customisation raises costs (it involves shorter production runs and the duplication of functions). Instead, global enterprises prefer to make a standardised product worldwide so they can reap the maximum benefits from the economies of scale that underlie the experience curve. They also use their cost advantage to support aggressive pricing in the world market (Hill, 2003:423; Griffin & Pustay, 2002:289; Phatak, Bhagat & Kashlak, 2005:197).

This strategy makes most sense where there are strong pressures for cost reductions and where demands for local responsiveness are minimal. Increasingly, these conditions prevail in many industrial goods industries. However, these conditions are not found in many consumer goods markets, where demands for local responsiveness remain high (e.g. processed food products). The strategy is inappropriate when demands for local responsiveness are high (Hill, 2003:423; Griffin & Pustay, 2002:289; Phatak, Bhagat & Kashlak, 2005:197).

3.2.4 Transnational strategy

In today's environment competitive conditions are very intense. To survive in the global marketplace, enterprises must exploit experience-based cost economies and location economies, they must transfer core competencies within the enterprise and they must do all this while paying attention to pressures for local responsiveness. In the modern MNEs, core competencies do not only reside in the home country. Valuable skills can develop in any of the enterprise's worldwide operations. Thus, the flow of skills and product offerings should not be all one way, from home enterprise to foreign subsidiary, as in the case of enterprises pursuing an international strategy. Rather, the flow should also be from foreign subsidiary to home country, and from foreign subsidiary to foreign subsidiary – a process referred to as global learning. The strategy pursued by enterprises that are trying to simultaneously create value in these different ways is referred to as a transnational strategy (Hill, 2003:424; Griffin & Pustay, 2002:289; Mellahi, Frynas & Finlay, 2005:306; Phatak, Bhagat & Kashlak, 2005:198).

A transnational strategy makes sense when a firm faces high pressures from cost reductions, high pressures for local responsiveness and where there are significant opportunities for leveraging valuable skills within a multinational's global network of operations. In some ways, enterprises that pursue a transnational strategy are trying to simultaneously achieve cost and differentiation advantages. As attractive as this may sound, the strategy is not easy to pursue. Pressures for local responsiveness and cost reductions place conflicting demands on an enterprise (Hill, 2003:424; Griffin & Pustay, 2002:289; Mellahi, Frynas & Finlay, 2005:306; Phatak, Bhagat & Kashlak, 2005:198).

3.3 STAFFING POLICIES

Staffing policy is concerned with the selection of employees for particular jobs. At one level, this involves selecting individuals who have the skills required to do particular jobs. At another level, staffing policy can be a tool for developing and promoting corporate culture (Hill, 2003:608). Four different staffing policies can be distinguished for global operations (Deresky, 2002a:391-396; Biscoe & Schuler, 2004:54-55; Ball et al, 2006:546-549): ethnocentric, polycentric, regiocentric and global staffing policies.

3.3.1 Ethnocentric staffing policy

MNEs using an ethnocentric staffing approach fill key managerial positions with people from headquarters – that is, parent country nationals (PCNs). Among the advantages of this approach are that PCNs are familiar with company goals, products, technology, policies and procedures – and they know how to get things accomplished through headquarters. This policy is likely to be used where a company notes the inadequacy of local managerial skills and determines a high need to maintain close communication and coordination with headquarters. It is also the preferred choice when the organisation has been structured around a centralised approach to globalisation and is primarily at the internationalisation stage of strategic expansion (Deresky, 2002a:391; Biscoe & Schuler, 2004:54; Scullion & Linehan, 2005:156; Hill, 2003:609-610; Ball et al, 2006:546).

Frequently, companies use PCNs for the top management positions in the foreign subsidiary – in particular, the chief executive officer (CEO) and the chief financial officer (CFO) – to maintain close control. PCNs are usually preferred when a high level of technical capability is required. They are also chosen for new international ventures requiring managerial experience in the parent company and where there is a concern about loyalty to the company rather than to the host country – in cases, for example, where proprietary technology is used extensively (Deresky, 2002a:391).

Disadvantages of the ethnocentric approach include the lack of opportunities or development for local managers, thereby decreasing their morale and their loyalty to the subsidiary, and the poor adaptation and lack of effectiveness of expatriates in foreign countries (Deresky, 2002a:391). According to Hill (2003:610), an ethnocentric policy can lead to "cultural myopia", the enterprise's failure to understand host country cultural differences that require different approaches to marketing and management. The adaptation of expatriate managers can take a long time, during which they may make major mistakes.

3.3.2 Polycentric staffing policy

With a polycentric staffing approach, local managers – host country managers (HCNs) – are hired to fill key positions in their own country. This approach is more likely to be effective when implementing a multidomestic strategy. If a company wants to "act local" there are obvious advantages to staffing with HCNs. These managers are naturally familiar with the local culture, language and way of doing business and they already have many contacts in place. In addition, HCNs are more likely to be accepted by people both inside and outside the subsidiary and they provide role models for other upwardly mobile personnel (Deresky, 2002a:391; Biscoe & Schuler, 2004:54-55; Scullion & Linehan, 2005:156; Hill, 2003:610; Ball et al, 2006:546-548).

With regard to cost, it is usually less expensive for a company to hire a local manager than to transfer one from headquarters, frequently with a family and often at a higher rate of pay. Transferring from headquarters is a particularly expensive policy when it turns out that the manager and his or her family do not adjust and have to be transferred home prematurely. Rather than building their own facilities, some companies acquire foreign enterprises as a means of obtaining qualified local personnel. Local managers also tend to be instrumental in staving off, or more effectively dealing with, problems in sensitive political situations. Some countries, in fact, have legal requirements that a specific proportion of the enterprise's top managers must be citizens of the country (Deresky, 2002a:391-392; Ball et al, 2006:547-548).

One disadvantage of a polycentric staffing policy is the difficulty of coordinating activities and goals between the subsidiary and the parent company, including the potentially conflicting loyalties of the local managers. Poor coordination among subsidiaries of MNEs could constrain strategic options. An additional drawback of this policy is that the headquarters managers of MNEs will not gain the international experience necessary for any higher positions in the enterprise that require the understanding and coordination of subsidiary operations (Deresky, 2002a:392).

3.3.3 Global staffing policy

In the global staffing approach the best managers are recruited from within or outside the company, regardless of nationality – a practice which has been used for some time by many European multinationals. Recently, as more major companies from the USA adopt a global strategic approach, they are also considering foreign executives for their top positions (Deresky, 2002a:392; Biscoe & Schuler, 2004:55; Scullion & Linehan, 2005:156; Hill, 2003:611; Ball et al, 2006:549).

A global staffing approach has several important advantages. First, this policy provides a greater pool of qualified and willing applicants from which to choose, which, in time, results in further development of a global executive cadre. The skills and experience that those managers use and transfer throughout the company result in a pool of shared learning that is necessary for the company to compete globally. Second, where third country nationals are used to manage subsidiaries, they usually bring more cultural flexibility and adaptability – as well as bilingual or multilingual skills – to a situation than parent country nationals, especially if they are from a similar cultural background to the host country co-workers and are accustomed to moving around. In addition, when third country nationals (TCNs) are placed in key positions, they are perceived by employees as an acceptable compromise between headquarters and local managers, and thus their appointment works to reduce resentment. Finally, it can be more cost-effective to transfer and pay managers from some countries than from others because their pay scale and benefits packages are lower. Those enterprises with a truly global staffing orientation are phasing out their entire ethnocentric concept of a home or host country. As part of that focus, the term "transpatriates" is increasingly replacing that of expatriate (Deresky, 2002a:392).

3.3.4 Regiocentric staffing policy

In a regiocentric staffing approach, recruiting is done on a regional basis – within Latin America for a position in Chile for example. This staffing approach can produce a specific mix of PCNs, HCNs and TCNs, according to the needs of the company or the product strategy (Deresky, 2002a:392-393; Biscoe & Schuler, 2004:54-55; Ball et al, 2006:548).

3.4 CHOICE OF STAFFING POLICY

As stated earlier, a link can be drawn between the internationalisation strategy being followed and the staffing policy being implemented by MNEs (Hill, 2003:611; Deresky, 2002a:391-392; Ball et al, 2006:546-549). MNEs following an international strategy will most probably implement an ethnocentric staffing policy, MNEs following a multidomestic strategy will most probably implement a polycentric staffing policy and MNEs following a global or transnational strategy will most probably implement a geocentric staffing policy. This correlation can be explained as follows:

- If an MNE is trying to create value by transferring core competencies to a foreign operation, as enterprises pursuing an international strategy are, it may believe that the best way to do this is to transfer PCNs who have knowledge of that competency to the foreign operation. Imagine what might occur if an enterprise tried to transfer a core competency in marketing to a foreign subsidiary without supporting the transfer with a corresponding transfer of home-country marketing management personnel. The transfer would probably fail to produce the anticipated benefits because the knowledge underlying the core competency cannot easily be articulated and written down (Hill, 2003:609; Ball et al, 2006:546).

- As indicated above, an MNE pursuing a multidomestic strategy aims for maximum local responsiveness. These enterprises extensively customise both their product offering and their marketing strategy to match different national conditions. If a company wants to "act local" there are obvious advantages to staffing with HCNs. These managers are naturally familiar with the local culture, language and way of doing business and they already have many contacts in place. In addition, HCNs are more likely to be accepted by people both inside and outside the subsidiary and they provide role models for other upwardly mobile personnel (Deresky, 2002a:391; Hill, 2003:610; Ball et al, 2006:546).
- A geocentric staffing policy enables an enterprise to make best use of its human resources, and perhaps more importantly, enables an enterprise to build a cadre of international executives who feel at home working in a number of cultures. Creating such a cadre may be a critical first step towards building a strong, unifying corporate culture and an informal management network, both of which are required for global and transnational strategies (Hill, 2003:611; Ball et al, 2006:549).

While the different policies described here are well known and widely used among both practitioners and scholars of international businesses, recently some critics have claimed that the typology is too simplistic and that it obscures the internal differentiation of management practices within international businesses. The critics claim that within some international businesses, staffing policies vary significantly from national subsidiary to national subsidiary; while some are managed on an ethnocentric basis, others are managed in a polycentric or geocentric manner (Hill, 2003:612; Rosenzweig & Nohria, 1994). Other critics note that the staffing policy adopted by an enterprise is primarily driven by its geographic scope, as opposed to its strategic orientation. Enterprises that have a very broad geographic scope are the most likely to have a geocentric mind-set (Hill, 2003:612; Kobrin, 1994:507-508).

According to Deresky (2002a:393), the following factors influence the choice of staffing policy being used by a MNE:

- The strategy and structure of the enterprise

- Factors related to the particular subsidiary, such as the duration of the particular foreign operation, the types of technology used and the production and marketing techniques necessary
- Factors related to the host country also play a part, such as the level of economic and technological development, political stability, regulations regarding ownership and staffing and the sociocultural setting

As a practical matter, however, the choice often depends on the availability of qualified managers in the host country. Most MNEs use a greater proportion of PCNs (also called expatriates) in top management positions, staffing middle and lower management positions with increasing proportions of HCNs as one moves down the organisational hierarchy (Deresky, 2002a:393).

3.5 REASONS FOR EMPLOYING EXPATRIATES

As was seen in the literature above, some staffing policies such as the ethnocentric staffing policy promote the use of expatriates, whilst other staffing policies such as the polycentric staffing policy promote the use of HCNs. In research conducted through structured interviews with the corporate personnel or human resource directors of 45 MNEs based in the UK and Ireland, Scullion (1994:90-93) identified a number of principal reasons for employing expatriates.

- The first was the lack of availability of management and technical skills in some countries. There was a greater tendency for companies to use expatriates in less developed countries due to the weak pool of available local management talent (Scullion, 1994:90; Hill, 2003:609).
- The second major reason for using expatriates is the objective of control of local operations. In Scullion's study 33 out of 45 enterprises identified control as a key reason for their use of expatriates. Expatriates were felt to be more familiar with the corporate culture and the control system of headquarters, and this was felt to result in more effective communication and coordination (Scullion, 1994:90; Hill, 2003:609).
- A further key reason for using senior expatriates was to maintain trust in key foreign businesses, following large international acquisitions. This finding is particularly interesting, because previous research has suggested that the employment of expatriates will be lower in acquisitions in comparison with Greenfield sites (Scullion, 1994:91;

Hamill, 1989:22) – building an enterprise from the ground up (Czinkota, Ronkainen & Moffett, 2003:138). The emergence of trust as a major factor is related to the rapid growth in the number and scale of foreign acquisitions by British companies in the 1980s. For example, in the late 1980s, a UK brewing and leisure company emerged as one of the world's leading hotel groups, following a massive £2 billion acquisition of a global hotel chain. In this example, a major reason given for using expatriates to run the acquisition was the need to have the peace of mind which comes from having your own people running such a large and strategically important investment (Scullion, 1994:91).

- The research also found that using expatriates for management development purposes was important and was increasing in significance for British multinationals. Out of 45 companies, 34 reported that expatriates were used for development purposes, and 25 of these enterprises claimed that use of expatriates for this purpose was becoming more important. This reflects the tendency of British companies to see expatriation as part of the career-development process. In this context, it is interesting to note that, in most cases, the management of expatriates was the responsibility of the corporate human resource function. This was the case even in some highly decentralised organisations (e.g. engineering companies) where the corporate human resource role was rather limited (Scullion, 1994:90; Ball et al, 2006:546).
- One very recent trend identified by the research was the tendency for companies to give younger managers international experience much earlier in their careers than previously. Over half of the companies in the survey (26 out of 45 companies) reported significant changes in this respect. This was linked to the growing problem of mobility (spouse's job, childrens' education and others) for older managers. This also reflect the strategy of some companies to broaden the opportunities for international development, and the growing recognition in some quarters that the payback on the investment of a developmental assignment may well be greater with a younger manager (Scullion, 1994:91-92).
- The performance of foreign subsidiaries also emerged as a significant factor influencing the use of expatriates. There was a greater tendency for the companies in the sample to use senior expatriates where the acquired business had been underperforming before the foreign acquisition. Similarly, poor performance by host country managers in the post acquisition phase was cited as an important reason for replacing them with expatriates (Scullion, 1994:90).

- Another factor influencing the approach adopted by companies was a strong expectation on the part of major foreign customers (and sometimes foreign governments) that the top managers in their country should be PCNs. Some 13 out of 16 international enterprises in the service sector and a minority of manufacturing firms (6 out of 26) said they had taken this into account in deciding their policy. Public relations and marketing were usually the key roles in this context (Scullion, 1994:92).
- There is also strong evidence from the present research that expatriates are more likely to be used in the early stages of new foreign operations. This is consistent with previous research that shows this practice is common in the early stages of internationalisation, where a company is setting up a new business, process, or product in another country and prior experience is considered essential (Scullion, 1994:93; Ball et al, 2004:598). A majority of firms indicated that control and trust were particularly important in the early stages of internationalisation. In Scullion's study, this factor had become more significant due to the rapid growth of international business in the last decade (Scullion, 1994:93).
- Nearly half of the companies (21 out of 45) also cited weaknesses in their training and development of HCN and TCN managers to explain their continued use of expatriates, despite a formal policy to replace expatriates with host-country managers after the start-up phase (Scullion, 1994:90; Ball et al, 2006:546).

In a small benchmark study involving fewer than 40 companies, Groh & Allen (1998:1) attempted to answer the question: "Are global staffing strategies delivering as much as they cost?" Their study revealed that companies with greater numbers of globally mobile employees – expatriates from the USA and developing company nationals – generally had lower total returns to shareholders. In contrast, better performing companies had the following in common:

- They are large and global, in terms of worldwide revenues, number of employees and countries.
- They have 50 percent fewer expatriates (in terms of total employment).
- They tend to use regional transfers and TCNs to a much greater extent.
- They have more comprehensive expatriate policies (e.g., frequent home leave and better educational benefits) that provide greater financial rewards (e.g., higher foreign service premiums and housing benefits).

3.6 STAFFING DECISIONS SUPPORTING GLOBAL DEVELOPMENT

The following five steps can foster careful staffing decisions that better support the global development of the organisation (Groh & Allen, 1998:1-2):

3.6.1 Link staffing strategies to global business goals

According to Groh & Allen (1998:1), rather than viewing international assignments as a means for developing global players and a global corporate culture, MNEs tend to view them as isolated projects. To change this mind-set, HR must understand a company's short- and long-term financial goals. Hiring, training and performance activities must support financial targets. A study by the National Foreign Trade Council Inc. (NFTC) revealed that in global HR activities, no more than one in five MNEs links selection with the preparation of employees for assignments. Likewise, few organisations emphasise career or succession planning. The following factors should be considered by MNEs in terms of the way they staff their global operations (Groh & Allen, 1998:1):

- The revenue and profit forecasts by country/region
- The likely pattern of growth (international or by acquisition)
- The degree of managerial autonomy extended to the local operation

3.6.2 Develop compensation and benefits policies

The following probing questions should be asked by MNEs in order to determine the gaps in their current policy (Groh & Allen, 1998:2).

- **Cost.** "What is the total cost of our expatriate policy? Do we understand the difference between and totals of direct and indirect costs? What controls are in place? Should these change over time?"
- **Fairness.** "How should the organisation define fair? Do employees and their families think the policies are fair? Are the policies equitable to expatriates in different countries and to local nationals? What level of internal equity is needed or desired? What are hiring managers' perspectives?"
- **Fitness.** "Are the policies integrated with other HR policies and solutions? Are they easily managed and administered? How are they linked to the business goals? Are they flexible enough to meet organisational needs, yet firm enough to limit individual negotiations?"

- **Competitiveness.** "How are the policies benchmarked and how frequently? What are the results of the benchmarking? What are the reactions to the policies from new hires and other service providers?"

Using HR's analysis, management can determine which policies are appropriate in terms of cost and other objectives and where the trade-offs may be (Groh & Allen, 1998:2).

3.6.3 Develop a performance management structure

Getting the right employee in the right place at the right time results from a solid HR staffing strategy. While home-country performance goals should be a solid foundation for building a performance management structure for international assignments, assignment-related goals should also be targeted as part of the global performance management structure. For example, completing the assignment on budget is important, but completing it six or eight months ahead of schedule could result in significant cost savings that could be shared with employees. The ideal staffing model and gap analysis enables management to link performance management to business objectives (Groh & Allen, 1998:2).

3.6.4 Create a communication strategy

It is important to recognise that management and employees will have conflicting points of view. Expatriates tend to look at each item in the compensation package separately, calculating any gain or loss. Management views the compensation package as a unit that addresses the financial needs of the expatriate. Management should address this at the start to avoid conflict that can interfere with employee productivity and corporate objectives. HR should help both the expatriate and family members understand what is in the compensation package, the reason for its structure, how it is designed to address specific issues and how it integrates components to provide total compensation specific to the location. Without a communication strategy designed to listen and respond to employees' needs at the beginning of the transfer, many international managers spend the duration of an employee's assignment on the defensive (Groh & Allen, 1998:2).

3.6.5 Monitor results

Without this step it is difficult to capture the return on the investment. This can be done through surveys of expatriates, returning expatriates, line managers and operations/marketing executives. HR should monitor repatriation activities, ensuring that the organisation utilises the skills and experiences of returning employees (Groh & Allen, 1998:2).

It is no secret that HR managers need to play a key role in the global business plan. After analysing staffing strategies, it might make good business sense to use fewer expatriates and treat them well, rather than using a scaled-down policy for more people and risk losing them in the end anyway. At the very least, management will know it is getting the most out of its global human capital investment (Groh & Allen, 1998:2).

3.7 INTERNATIONAL STAFFING PROBLEMS

Companies that have ventured abroad are sharing their experiences through the National Foreign Trade Council Inc. (NFTC), a New York based organisation that studies international management issues. The following are problems that are commonly encountered in international staffing reported to the NFTC – along with some solutions (McNerney, 1996:1-6).

- **A dearth of qualified locals.** Managers in emerging markets – China, Eastern Europe, Southeast Asia, the Middle East and Africa – often complain that they cannot find enough qualified local people to staff their operations. Positions remain unfilled for months as managers search for local people with the right mix of skills. There is, however, no shortage of brainpower in these regions, just a shortage of people with the right mix of technical skills and a willingness to accept the Western style of doing business (McNerney, 1996:4; Hill, 2003:609; Deresky, 2002a:391).

  To address the shortage of local talent, MNEs should develop a "farm team" of foreign nationals from sources outside the local market, such as Western and US business schools. These students represent another talent stream – above and beyond what is available in the local labour market – to which Western enterprises have unique access. They also are immersed in Western business practices and capable of filling high-skills jobs in their home countries (McNerney, 1996:4).

- **High turnover amongst locals.** Given the scarcity of local talent, it is not surprising that Western companies experience high employee turnover in foreign markets. This is especially true of highly trained professionals with in-depth technical skills. Talented locals often get lured away to other enterprises by sweeter compensation packages.

Sometimes employees go to other Western enterprises that offer them more cash or a more prestigious title. Otherwise they go to a local company that not only increases their remuneration and benefits, but also offers them an equity stake in one of its local subsidiaries (McNerney, 1996:4; Hill, 2003:610).

Western enterprises cannot compete with equity ownership, because they are not going to open up subsidiaries in order to give equity participation to locals. But there are some tricks Western enterprises can use to reduce employee turnover in foreign markets. For instance, they can offer stock options with long maturity – three to five years for example – to top performers. Large Western multinationals can also offer a job-rotation programme to talented local personnel, giving them an opportunity to gain experience at foreign offices around the world. Not only do they enjoy that, but also job-rotation is something that many local companies cannot do because they do not have subsidiaries around the world (McNerney, 1996:4).

- **Escalating local payrolls.** Many people assume that hiring local personnel in developing countries is cheap, but this is not always the case. With qualified locals in such short supply, their cost is rising. This trend is quite evident throughout Asia, where salaries have been rising by more than 10 percent a year in most labour markets since the early 1990s – and by even larger amounts for skilled professionals and managers. This phenomenon is happening in other developing markets as well. The bidding war is not limited to salaries, however. Benefits costs are also escalating for Western companies as they try to match the offerings of local companies and outflank their Western competition. In Indonesia, for instance, where employees commonly subsidise mortgages for valued employees, Western companies have been forced to do the same thing. Citibank is a case in point. They are carrying a portfolio of employee loans in Indonesia of US$25 million. The street rate for these housing loans is about 13 percent and is subsidised at 5 percent, so the employee pays about 5 percent and Citibank picks up the difference – 8 percent. To get the best compensation and benefits package, local workers in foreign countries may cherry pick the offerings of various employers, trying to convince one company to match the individual pieces of the other employers' packages (McNerney, 1996:4-5; Briscoe & Schuler, 2004:349).

While it is difficult to resist the basic laws of supply and demand that are driving up certain labour costs in developing countries, Western companies can take some steps to ameliorate escalating local payrolls. At the very least, they can stop the practices of their own that contribute to the problem: for instance, not allowing people to cherry pick. They can understand the compensation and benefits packages of their competitors and make sure their total package equals the competition's total package, but not try to match the best parts of every package out there. If an enterprise does, it will have such an inflated total compensation programme that it will go out of business. Employers are also cautioned that pirating employees from one another will only lead to higher salary standards down the road. When Western companies pirate people away at double or triple their salary they inflate salaries scales (McNerney, 1996:5).

- **Lack of corporate culture.** When a Western company hires too many local people in its foreign office, it risks losing the unique set of values and operating procedures that defines its corporate culture. If an enterprise relies too heavily on locals, the enterprise is going to have a local culture, not the corporate culture it wants, and the local culture may be totally foreign to the way the enterprise operates (McNerney, 1996:5; Hill, 2003:609; Ball et al, 2006:548).

  In order to solve this problem it is important to bring in a critical mass of expatriates who carry the culture with them at the beginning of the start-up. Then the enterprise can leave one or two behind to oversee the locals and ensure that they are following corporate policies (McNerney, 1996:5; Hill, 2003:609).

- **Poor expatriate selection.** Many companies haven't established sound processes for selecting employees to send abroad. In some enterprises, in fact, the process is little more than a random lottery. "We look up and down the hallway and we send Sheridan off to Japan – because we see him". Clearly, though, such a careless approach is inadequate. An employee might have all the technical skills to do the job, and might have been very successful in his or her role in the USA, but might not have the skills to adapt to a foreign market (McNerney, 1996:5).

  To improve the chances of success, companies must develop a more rigorous selection process. Sensible companies interview the candidates carefully, and may even interview the spouse, to find out if they are going to be adaptable. Ideally, the interview process is a two-way dialogue in which the candidate learns about the challenges of working abroad and the company narrows the field of promising candidates. It's a self-elimination process. Candidates are given a pretty open and honest assessment of where the challenges will be and the individual has the opportunity, if he or she wishes, to withdraw from consideration or pick up some skills that will be needed for the new assignment (McNerney, 1996:5-6; Briscoe & Schuler, 2004240-241; Hodgetts & Luthans, 2003:456-457).

- **Overcompensating expatriates.** Companies that do not have well thought-out global compensation policies often overcompensate their expatriates. They tend to give expatriates what they ask for – generous foreign-service premiums and cost-of-living allowances, for example – rather than what they need, and sometimes, mistakenly, they try to preserve the expatriates' home-country standard of living in a foreign country where doing so is impractical. It is really not possible, nor does it make sense, for somebody who is going to Tokyo to expect to be able to rent a four-bedroom Colonial home. It just does not exist, and even if it did exist, it would be prohibitively expensive (McNerney, 1996:6).

  In order to overcome this problem, an MNE should start out with a modest compensation package and be prepared to increase it, if necessary. It should try not to start out over generous, as it is very difficult to scale back packages once they are in place. It is important that MNEs realise that they don't have to automatically assume that they have to preserve the expatriate's home-country standard of living. Chubb & Son, which has a well-developed expatriate compensation policy, does not guarantee that all of its expatriates will maintain their home-country standard of living while abroad. The home country is used as a reference point, but they look at what is possible and affordable in the location the expatriate is moving to (McNerney, 1996:6).

- **Inadequate attention to the soft issues.** Many companies focus on the hard issues surrounding expatriate assignments – taxes, cost-of-living allowances, premiums and the like – and overlook the soft issues. These issues include employment for the expatriate's spouse, schooling for his or her children and the family's adjustment to a new culture. "Will the trailing spouse be able to work, how are you going to keep that spouse happy and what can the company do to help the family be more accepting of the assignment" (McNerney, 1996:6; Sievers, 1998:S9)?

If the trailing spouse has to give up a job in the home country, the expatriate's employer can give him or her a stipend to use in finding employment in the new country or acquire new skills through continuing education. In some cases, the employer may assist the spouse in finding employment in the new country or even subsidise the loss of income. To help the family make a smooth adjustment to the new culture, the employer should offer cultural training. Usually, this is done with the assistance of a specialised consulting firm (McNerney, 1996:6; Sievers, 1998:S9).

3.8 CHANGES IN INTERNATIONAL STAFFING POLICY

In his study of 45 international personnel management professionals in MNEs based in the UK and Ireland, Scullion (1994:89) found that a majority of the companies continued to rely heavily on PCNs to run their operations. The research findings showed that, while almost 50 percent of companies had formal policies favouring the use of host country managers to run their foreign operations, in practice just over one-third operated with HCNs in senior management positions in their foreign operations. In other words, two-thirds of the companies relied primarily on expatriates to run their foreign operations. Furthermore, the trend has moved in the direction of greater use of expatriates. Half of the companies in the sample (22 out of 45) reported an increase in the use of expatriates over the previous decade and only 20 percent indicated that they had reduced their use of expatriates. The remainder reported no significant change.

The findings of the study on staffing practices in UK and Irish enterprises reveal sharp differences with MNEs from the USA. MNEs from the USA have tended to substitute HCNs to replace expatriates, primarily in response to the difficulties managers from the USA have experienced in adjusting to other cultural environments. The increased use of host country managers may in part reflect the cost of maintaining expatriates abroad, the greater sensitivity of local managers to local cultures and local market needs and the growing international maturity of some multinationals. It is suggested, however, that expatriate reduction may result in multinationals from the USA facing reduced identification with the worldwide organisation and its objectives, difficulties in exercising control and a lack of opportunities for managers from the USA to gain international experience abroad. The principal concern is that multinationals from the USA could face major strategic management control problems where managers identify with local units rather than with global corporate objectives (Scullion, 1994:89-90; Kobrin, 1988:68-73).

In a more recent study amongst 60 mainly European companies, it was found that 53 percent had more than 50 employees on long-term assignments of a year or more, but only 18 percent had more than 50 abroad for fixed periods of less than a year or so. However, short-term assignments were the ones most companies expected to grow. In a comparative study between 1997 and 2000 it was found that the growth in short-term assignments was quite astounding. One of the reasons for this change is cost. Sending employees abroad long term generally costs three to four times as much as employing local staff. Another reason is the way that companies run international operations. The growth in shorter postings can be traced to the early 1990s, when executives increasingly acquired global and functional, rather than regional and geographic, responsibilities. A manager with responsibility for, example, information, is expected to work in all the countries in which the company operates. As a result, people with specific skills, often much lower down the company ladder than the typical expatriate of the past, now work abroad for a few weeks or months at a time (Anon, 2000b:80).

Employees' lives have altered too, in ways that make long-term foreign postings less attractive. Professionals marry other professionals: dual-career couples risk losing half their income if one has to move. Half the companies surveyed said the employee's partner was one of the main reasons for failed or unsuccessful postings. Short assignments, of up to a year, solve several of these problems. They often cost a company less, partly because the employee usually continues to be paid the same salary as he or she would have earned at home. Short postings also avoid uprooting a career-minded spouse, and may give high-fliers a more rounded perspective (Anon, 2000b:80).

As well as posting staff abroad for months or years, more and more companies expect people to be prepared to nip across the Atlantic or the Pacific for a few days at a time. There has been a sharp rise in long-distance commuting and one-off business trips over the past three years. But managing frequent fliers tends to be the purlieu of line managers, not the human resources department (Anon, 2000b:82).

3.9 SUMMARY

MNEs can choose between four different staffing policies to follow when staffing their international operations. These include: the ethnocentric, the polycentric, the global and the regiocentric staffing policies. These policies can, however, in most cases be directly linked to the internationalisation strategy being followed by MNEs. MNEs following an international strategy will most probably implement an ethnocentric staffing policy, MNEs following a multidomestic strategy will most probably implement a polycentric staffing policy and MNEs following a global or transnational strategy will most probably implement a global staffing policy. Three of the four staffing policies require the use of expatriates: the ethnocentric, global and regiocentric staffing policies. It was pointed out that the lack of available management and technical skill in some countries and the need to control the local operations were among the main reasons why MNEs use expatriates.

Apart from determining which international staffing policy to implement, MNEs encounter some problems as far as international staffing is concerned. These include a dearth of qualified local managers in emerging markets, high turnover amongst local or host-country managers and an escalating payroll for host-country managers as well as the overcompensating of expatriates.

Internationally there seems to be a shift in the staffing policies being followed by MNEs. More and more MNEs are opting to make use of short-term assignments – up to a year - as opposed to long-term assignments. One of the main reasons for this change is the resistance of expatriate's spouses to leaving their careers behind and relocating internationally. These short-term assignments often also cost a company less, partly because the employee usually continues to be paid the same salary as they would have earned at home.

If an MNE has decided to follow a staffing policy requiring the utilisation of expatriates, the MNE must decide on the type and amount of preparation, support and training it should provide the expatriate and his or her family with. These issues will be discussed in the next chapter.