



## Chapter 1

### General Introduction

#### 1.1. Background to research project

*“At the Mandla Hill and Arcades shopping centres in Lusaka, it is easy to forget that you are in Zambia’s capital. For those travelling north of South Africa, the scene is eerily familiar: they can shop at the Shoprite and Woolworths supermarkets and go for a bite to eat at Debonairs Pizza. MTN pre-paid mobile phone cards are for sale at traffic lights and there is a choice of films at the Ster-Kinekor cinema or on the M-Net satellite-television channel...”* (The Economist, 2006: 44).

From the above quote it becomes evident that the number of countries in which many South African companies conduct their business has expanded drastically during the past few years. Expatriates play a vital role in managing these international businesses effectively. Only 15 years ago it would have been unthinkable for South African business to be conducting business outside of the country’s borders. Since the acceptance of South Africa into the international community after the first democratic elections in 1994, the business environment in the country and in the broader Southern African subcontinent has changed drastically as local companies quickly adjusted to the global economy.

In line with international trends, South African companies have been extensively increasing their exposure to international markets. South Africa is currently one of the largest investors in sub-Saharan African countries, and is making a substantial contribution in driving their economic development (The Economist, 2006).



From a global perspective, examples of South African companies that have even gone so far as to move their central business units to other locations in the world include South African Breweries Miller, Anglo American, Investec, BHP Billiton, Rembrandt, and Old Mutual (Business Day, 2005). In order to survive, South African companies have also been required to compete against global companies for example Barclays Bank, Coca Cola, BMW, British Petroleum, Siemens, Motorola, and Shell Oil (The Economist, 2003).

One of the most challenging issues facing not only South African companies who are expanding internationally, but also multinational firms across the world is the management of the human resources required to ensure the successful management of their diverse international interests. In order to meet the increasing need to manage these off-shore operations in foreign countries, companies increasingly make use of expatriates (Suutari & Brewster, 2003). The cost of sending expatriates overseas on international assignments is estimated at around one million rand per year for a three-year executive assignment (Van der Bank & Rothman, 2002). Therefore, the effective management of the expatriates has become a strategic priority.

Despite the strategic role that these international assignments play in the success of the business venture, many companies have a rather narrow and short-sighted view of how these assignments can be effectively utilised and who should be involved in them. Cascio and Aguinis (2005) are of the opinion that most companies make use of international assignments primarily with the purpose of meeting the requirements of a specific position and their inability to fill the position with a host-country employee. In the experience of Cascio and Aguinis (2005), international assignments are most often utilised to “fight fires”. The consequences of making use of this “fire fighting approach” can be severe and wide-ranging.



## 1.2. Need for this research

Hawley (1999) found that between 16 and 40 percent of South African expatriates sent on international assignments to foreign countries, do not complete their assignments. As high as 50 percent of the expatriates who do not end their assignments early operate at a low level of effectiveness. Van Heerden and Wentzel (2002) agree with Hawley in this regard, indicating that 23 percent of South African expatriates fail and return prematurely from their international assignment.

The above mentioned figures correlate well with international statistics, which indicate the proportion of expatriates from the United States of America who fail in their international assignments ranges from 10 to 45 percent, with the higher rates associated with assignments in underdeveloped or developing countries (Black et al, 1999: 11).

Depending on the expatriate's remuneration package and whether his family were also reallocated to the foreign country, a failed international assignment can cost a company between R500 000 and R2 million (Van Heerden & Wentzel, 2002). These do not include hidden costs such as strained customer relationships, ineffective communication, poor morale among employees, downtime costs, and friction between the parent company and foreign operations. Expatriate failure also directly impacts on the performance of the individual concerned. From a work perspective, the person's inability to complete the assignment will have a detrimental impact on his levels of productivity and motivation, as well as the availability of future promotional opportunities in the company. From a personal perspective, the well-being of the accompanying family will also be threatened (Beaverstock, 2000).

In the survey conducted by Van Heerden and Wentzel (2002), South African companies involved with expatriation indicated the following main reasons for failed assignments:

- Personal reasons : 62 percent
- Health considerations : 10 percent
- Performance-related matters : 28 percent



The above mentioned figures are in line with international findings (Brotchi and Engvig, 2006), where the reasons for expatriate failure were (in descending order of importance):

- inability of spouse to adjust to the living conditions in the foreign country,
- expatriate's own inability to adjust to the foreign environment,
- impact of the expatriation process on the family,
- expatriates' levels of emotional maturity,
- inability of expatriate to cope with pressure associated with managing larger overseas responsibility.

These findings indicate that lack of technical skills is seldom the primary cause of expatriate failure, and that the major reasons for expatriate failure can be associated with issues related to the expatriate's emotional well-being outside the work environment. These issues have very little to do with the individual's technical or managerial ability to perform the actual job effectively. Despite the convincing statistics available on the importance of focusing on the emotional well-being of the expatriate and his ability to cope with the foreign expatriate environment, the survey conducted by Van Heerden and Wentzel (2002) found that of the South African companies included in the survey, only 48 percent of them conducted proper selection processes on future expatriates prior to assignments. In addition, only 29 percent of the participants focused on aspects other than technical or managerial competence during their selection of future expatriates.

Cascio and Aguinis (2005) also found that, despite the importance of all the other criteria related to expatriate success, most international companies seem to focus their efforts during their selection of candidates for expatriation solely on two criteria, namely technical ability and willingness to go on an international assignment.



### **1.3. Problem statement**

From the above mentioned observations it becomes clear that companies tend to place most of their human resources efforts on those factors that have been proven to be of less importance in determining expatriate success – technical and management competence and performance. The observations also indicate that, in order to ensure the success of their expatriates during international assignments, organisations need to place a lot more emphasis on the management of the expatriates' emotional well-being and health in adjusting to the foreign environment and country.

According to Marx (1999), expatriates progress through a normal and predictable series of development phases when they embark on international assignments, namely the recruitment and selection phase, the actual period abroad, and the repatriation back to the home-country on completion of the assignment. Adler (1997) also refers to these three phases as part of the expatriate's international career cycle. The various phases of adjustment in the expatriate career cycle each requires of the individual to be able to deal with substantial levels of pressure and emotional turmoil (Fitzgerald-Turner, 2003).

A significant requirement of the individual during these phases is to remain emotionally healthy, despite being faced with a multitude of external pressures and demands exerted on him from the external environment in the foreign country - both at a professional and a personal level. Kaplan and Sadock (1991: 224) indicate that the individual expatriate is exposed to severe levels of psychosocial stress during his relocation into the foreign country, which could potentially lead to him experiencing symptoms of emotional fatigue. In extreme cases, this transition could lead to severe levels of distress to the individual.



Kaplan and Sadock (1991: 224) refer to the Diagnostic Manual of Mental Disorders, which provides a 6 point “Severity of Psychosocial Stressors Scale” for categorising the psychosocial stressors that significantly contribute to the development of psychological and physical illness. On this scale, a score of 6 represents catastrophic stress (for example being placed in a concentration camp), and a score of 1 represents no apparent stress. Expatriation and relocating to a foreign country or culture, on the six-point scale, is given a rating of 4. This represents severe stress. The impact of expatriation on the individual’s emotional wellbeing is rated similar to the stress caused by divorce, poverty, and chronic life threatening illness in parents.

In agreement with Kaplan and Sadock, Anderzen and Arnetz (1999) indicate that 6 out of 10 international assignments involve sufficiently high levels of stress on the expatriate to cause either an early return or at least a significant drop in effectiveness and professional performance.

However, the expatriates themselves also have an active role to play in adjusting to the demands placed on them. The core reason why companies make use of expatriates is to adjust as quickly as possible to the work environment in the foreign country, and achieve certain very specific work-related objectives. In order to attain these objectives, it is imperative for the person to possess and utilise the appropriate coping mechanisms and personality traits that will enable him to remain productive and emotionally healthy during the various phases of the international assignment.

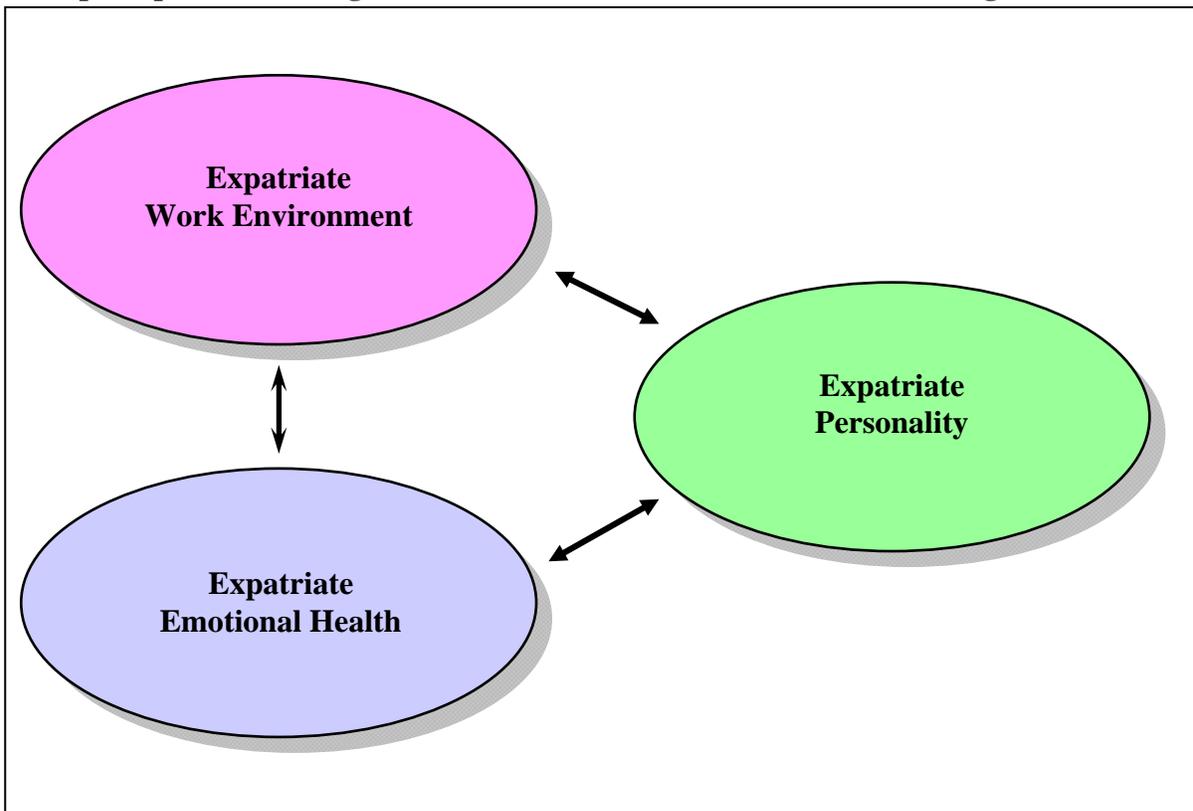
Against the background of the above mentioned discussions, it is evident that there is a need to investigate the interaction that takes place among the expatriate’s levels of emotional health, his personality, and his perception of the organisational climate while on international assignment in a foreign country.

#### 1.4. Aim of this research

The aim of the study is to determine whether relationships exist between the expatriate's levels of emotional health, personality, and his perception of the organisational climate while on international assignment, and to present the outcomes of the study as a model. An understanding of this relationship among the three factors will provide both line management and Human Resource practitioners with valuable insight into the expatriate adjustment process and the impact it has on the performance of the employees they send on international assignments to subsidiaries in foreign countries.

A graphical layout of a potential model that displays the interaction among the three factors is presented below:

**Figure 1.1: Possible relationships among expatriate emotional health, personality, and perception of the organisational climate while on international assignment**





In order to determine and explain the nature of the interaction among the different variables, the following specific research objectives are set:

- Objective 1: To establish the impact of the expatriation process on the individual's emotional health. A comprehensive literature study will be provided in Chapters 4, 5, and 6 on the influence of the various international assignment phases on the emotional health of the expatriate. More specifically, the relationship between the expatriation process and Sense of Coherence and Hardiness as measurements of expatriate emotional health will be discussed in Paragraphs 7.5.3 and 7.6.3 in Chapter 7. The discussion of the results obtained from the study in achieving Objective 1 are provided in Paragraph 10.2 in Chapter 10;
- Objective 2: To determine the interaction that exists between the expatriate personality and the individual's emotional adjustment during the various phases of the expatriation process. The literature study providing the background to the relationship between personality and expatriation is provided in Paragraph 7.7.3 in Chapter 7. The discussion of the results obtained in achieving Objective 2 are presented in Paragraph 10.3 in Chapter 10;
- Objective 3: To ascertain the impact of organisational climate factors on the emotional adjustment of the individual prior to departure on the international assignment, and while on contract. In Paragraph 5.5 (Chapter 5) an investigation is conducted on the factors influencing cross-cultural adjustment and subsequent emotional health. Paragraph 10.4 in Chapter 10 provides a discussion on the outcomes of the statistical analyses conducted in order to achieve Objective 3;
- Objective 4: To establish the nature of the relationship that exists between expatriate personality and the individual's perception of the organisational climate. The literature study conducted in achieving the previous objectives provides the background to Objective 4. The outcomes of the statistical analyses conducted in accomplishing Objective 4 are discussed in Paragraph 10.5;



- Objective 5: To investigate the main personality and organisational climate predictors of the expatriate's levels of emotional health while on international assignment in a foreign country. The results relating to Objective 5 are discussed in Paragraph 10.6.

## **1.5. Layout of study**

In order to achieve the above mentioned objectives, the research will be conducted in three sections. A layout of the process to be followed in the study is provided below:

### **Section 1: Setting the scene for expatriation**

Chapter 2: Globalisation

Chapter 3: Expatriates

Section 1 provides a strategic overview of the global and international business dynamics that need to be taken into account when investigating the expatriation process.

In Chapter 2, globalization is discussed, as well as expected future trends in the development of globalisation. Approaches utilised by companies in internationalising and adjusting themselves to the demands placed on them by the globalised environment are also discussed in this chapter.

In Chapter 3 a detailed analysis is conducted on expatriates, the approaches utilised by international organisations in utilising expatriates, as well as the impact that failed international assignments have on both the organisation and on the individual.



## **Section 2: Individual adjustment to the expatriate international career cycle**

Chapter 4: Selection and preparation prior to international assignment

Chapter 5: On international assignment

Chapter 6: Repatriation on completion of international assignment

Chapter 7: Expatriate emotional adjustment

In Section 2 a literature study is conducted on the dynamics and complexities involved with each of the phases of the international career cycle, with specific focus on the work and organisational environment within which the expatriate is required to function while on assignment. These areas are covered in Chapters 4, 5, and 6.

Chapter 7 investigates the expatriate emotional health, taking into account the unique demands placed on him during the various phases of the international career cycle as discussed in the previous chapters. Attention is also given in this chapter to the interaction between personality and the expatriate's ability to remain emotionally healthy.

## **Section 3: Empirical research and results**

Chapter 8: Research design

Chapter 9: Results

Chapter 10: Discussion

Chapter 11: Conclusions and recommendations

Section 3 contains the empirical research that is carried out in order to achieve the research objectives of the study as highlighted earlier in this chapter.



In Chapter 8, a detailed review is provided of the research design and methods to be followed in the study.

Chapter 9 entails a description of the results obtained from the research conducted.

A detailed discussion is conducted in Chapter 10 on the results obtained within the context of the literature study conducted earlier in Section 2.

Finally, a conclusion on the extent to which the research objectives have been achieved as obtained from the statistical analyses is provided in Chapter 11. Recommendations for future research are presented in this chapter, with specific reference to any potential limitations that may have been identified.



## **Section 1**

### **Setting the scene for expatriation**

#### **Overview**

In Section 1 of this research, a background exploration is conducted on the strategic factors that need to be taken into account when companies wish to make use of expatriates in extending their business operations on an international basis.

In Chapter 2, the multidimensional and constantly changing global environment is investigated within which multinational companies and expatriates are required to function and remain competitive.

An analysis is conducted in Chapter 3 on the various approaches utilised by companies to ensure they make effective use of the human resources available to them. In addition, the complexities involved with the utilisation of expatriates are also discussed, as well as the potential consequences of the expatriation process on the expatriate, his family, and the organisation.

The above mentioned discussions serve as background to the literature study conducted in Section 2, where the focus is placed on the expatriate and the emotional adjustment processes involved with the expatriate's progress through the various phases of the international career cycle.



## Chapter 2 Globalisation

### 2.1. Introduction

*“The rapid globalization of business and its impact on firms is beyond dispute. The debate in corporate boardrooms now focuses on how to respond to the demand to be globally integrated while also being responsive to various local market needs. It multinational firms are to prosper now and in the future, they must develop people who can successfully function in a global context...”* (Black et al, 1999: xi). From the above mentioned quote it becomes evident that the extent to which a company is able to adjust to globalisation will have a determining effect on its success. In order for the company to position itself appropriately in the globalised business world, it is critical to obtain a thorough and detailed understanding of globalisation, its various components, and the impact it has on the way the company needs to manage its international workforce.

The company’s adjustment and growth in this global business environment will have a direct impact on the organisational climate within which the expatriate is required to function. In order to obtain a realistic perspective of this environment within which the expatriate needs to function, it is important to obtain a more comprehensive understanding of the global forces having an impact on the organisation and the individual. A more detailed discussion on the “globalised world” also presents a meaningful perspective of the environment within which the expatriate is required to function.

In Chapter 2 the term globalisation is discussed, its characteristics, as well as the benefits and challenges associated with it. Attention is also given to expected future trends in the development of globalisation. In addition, the various approaches utilised by companies in internationalising and adjusting themselves to the demands placed on them by the globalised environment are discussed.



## 2.2. Globalisation defined

The term "globalisation" has become one of the buzzwords commonly used by businesses, governments, unions and community activists. However, depending on their particular frame of reference, these parties may attach very different meanings to the term. For the purposes of clarity and consistency, it is therefore important to obtain a clear understanding of globalisation.

Within the framework of the expatriate environment, clarity on the term globalisation will also lead to an appreciation of its impact on business and expatriates. This, in turn, will ensure that the most appropriate approaches are utilised to facilitate the management of an international workforce in the new global work environment (Jauch, 2000). Depending on the framework within which globalisation is discussed, various definitions exist for the term.

Cascio and Aguinis (2005) refer to globalisation as commerce without borders, along with the interdependence of business operations in different locations. Chronicles of Higher Education (Jan 23, 1998) states that *"Globalisation is most often used to describe the growing integration of economics worldwide through increases in trade, investment flows, and technology transfer. The term conveys a sense that international forces are driving more and more developments in the world, and thus crystallises both the hopes of some people that we will finally achieve a global society and the fears of many others that their lives and jobs are threatened by forces beyond their control."*

Rothenberg (2003) defines globalisation as follows: *"Globalisation is the acceleration and intensification of interaction and integration among the people, companies, and governments of different nations. This process has effects on human well-being, on the environment, on culture (including ideas, religion, and political systems), and on economic development and prosperity of societies across the world"*.



The most comprehensive definition is provided by the International Monetary Fund (2002), who refers to globalisation as “*the trend towards increasing integration of economies across the world in terms of goods, services, ideas, information, and technology*”. According to this description of the term, globalisation can be divided into three basic facets: economic, political, and cultural globalisation. Of the three facets, economic globalisation is the dominant trend from which the other two flow. From this dominant economic perspective, globalisation includes unrestricted international trade, free and borderless movement of capital, privatisation, industrialisation of economies, the rapid growth of trans-national corporations, and the globalisation of employment.

Specific attention will now be given to the impact of the globalised economy on organisations and employment practices.

### **2.3. Globalisation of employment**

The Secretary General of the International Monetary Fund, Mr Stanley Fischer (International Monetary Fund Staff Brief, 2002) points out that: “*Globalisation has led to a global labour market in which workers of all countries are in direct competition with each other*”. He continues by stating that, as a result of the mobility of capital, it will soon be possible for international companies to have the best of all worlds: high productivity, high technology, and low wages: “*It costs US\$25 an hour to employ a production worker in Germany, US\$16 an hour in the United States; but only US\$5 in South Korea, US\$2.40 in Mexico, US\$1.40 in Poland, and 50 cents or less in China, India and Indonesia*”.

Both Van Zyl (2001) and Jauch (2000) agree with this opinion, indicating that the mobility of capital has substantial implications for employed people in all countries of the world. These implications may, however, differ for employees in developing and industrialised countries.



Traditionally, labour power has its foundation in the fundamental interdependent relationship between capital and labour. Employees exercise their power by threatening collectively not to provide their services, which is a fundamental element of the production process. This capacity of workers to exert this power used to be founded in the fact that capital could not simply be withdrawn from its inherently interdependent relationship with labour. In a closed economic system, the national government of a country is able to establish the rules for collective bargaining between employers and employees through national labour laws.

While this principle may still apply to domestically-based companies, Van Zyl (2001) indicates that the current trend is for trans-national corporations attempting to escape the rules of national bargaining. The globalised world economy, combined with new technology, has created a favourable basis for capital to be diverted easily to other countries. This is done by relocating production to other countries with more lenient labour laws and cheaper labour costs, or by outsourcing production to other countries.

As a result of this mobility of capital, national states that depend on foreign investment are constantly required to maintain conditions that will avoid the outflow of capital. These conditions may often be directly in conflict with the interests of workers. Consequently, countries and workers are competing against each other in order to become "competitive" (Van Zyl, 2001; Jauch, 2000). As corporations move production sites to the most favourable areas where low wages, skilled labour forces, and political stability are in place, an increased mobility in labour markets is created.



According to Henriott (1999), this process could lead to a vicious circle. Labour standards are directly influenced to the detriment of workers in developing countries, and could even threaten the well-being of workers in the industrialised world. Jauch (2000) asserts that “*at best, a small group of workers will gain some jobs for a short period of time - until capital finds more attractive conditions elsewhere*”. As a result of the above mentioned forces playing a role in this vicious circle, an environment is created where only the multinational corporations benefit to the detriment of the employees in individual national states.

On a positive note, Robbins (2003) is of the opinion that the relationship between employer and employee will change significantly in the new globalised company. The employment relationship will be much more flexible and customisable, characterised by aspects such as telecommuting, job sharing, and a strong emphasis on payment for critical skills. This strong need for flexibility will require organisational systems, processes, and people that can respond quickly and appropriately to different situations. In order to facilitate this more flexible organisational approach, fewer detailed rules and procedures will be in place in the company. Employees will also be provided with greater autonomy, and encouraged towards higher levels of creativity and initiative (21<sup>st</sup> Century Organisational Trends). However, employees will be required to be much more flexible in an era of lifetime employability, as opposed to lifetime employment.

#### **2.4. The role of trans-national corporations in globalisation**

One of the characteristics of the global economy is the unparalleled concentration of economic power (Soros, 2000). A major role player in the world of globalisation is the large trans-national corporations. The United Nations Economic and Social Council (2003) refers to the term “trans-national corporation” as “*an economic entity operating in more than one country or a cluster of economic entities operating in two or more countries - whatever their legal form, whether in their home-country or country of activity, and whether taken individually or collectively*”.



According to The New Internationalist Magazine (2004), of the largest 100 economic powers in the world, 50 are global corporations. More than 25 percent of business transactions in the world take place within the 200 largest corporations. Trans-national corporations control approximately 70 percent of all world trade, and almost half of this trade takes place between different parts of the same trans-national corporation.

Soros (2000) asserts that intense competition exists among trans-national corporations from the United States of America, Western Europe, Japan and Asia. Soros is of the strong opinion that these trans-national corporations are the power underlying a system of economic capitalism which progressively manipulates conditions across the world allowing these trans-national corporations to undermine the laws and authority levels of national states. As the pressure is intensified on individual countries to maintain investments from increasingly powerful trans-national corporations, they attempt to attract investors by making themselves 'competitive'. This often takes place by relaxing labour legislation, and by reducing employee remuneration and benefits.

The New Internationalist Magazine (2004) also expresses some concern towards trans-national organisations. According to them, a major drive for trans-national organisations is to achieve maximum profit, dominance and power within the shortest period of time, without always having sufficient regard for the impact their actions have on stakeholders such as individual countries, employees, and the environment. As a result of their activities, an open global economy is developing as protective legislation within countries is diminished. This allows trans-national corporations to capture markets internationally under the pretence of 'free trade'.

Trans-national corporations are also in the process of creating integrated operations in various countries, or forming strategic coalitions with other organisations (Van Zyl, 2001; Jauch, 2000). The New Internationalist Magazine (2004) comments that 66 percent of international trade is accounted for by only 500 organisations. Within those organisations, 40 percent of the trading takes place among different parts of the same trans-national organisation.



As can be seen from the above discussion, trans-national corporations are very much an integral part of globalisation, and will continue to have a substantial impact on the way in which business is conducted within the new globalised economy.

## **2.5. The development of organisations in the global economy**

### **2.5.1. Introduction**

In order to understand how these trans-national organisations function, it is important to note the various stages they go through in their development towards internationalisation.

According to Black et al (1999), organisations develop in certain general and predictable patterns in the process of becoming globalised companies. Black emphasises that when the term globalisation is used within the context of an organisation's growth, the underlying principle is not one fixed point at which a company is globalised, but rather a series of globalisation patterns and certain of the specific international challenges and issues associated with each. Black et al identify five stages of organisational growth towards globalisation. Adler (1997) also refers to these stages as "stages of global development". The five stages are as follows:

- Domestic stage
- Export stage
- Multi-domestic stage
- Multinational stage
- Global (or trans-national) stage



At each of the above mentioned stages, the human resource management approach needs to be adjusted in line with the changes in strategic objectives, organisational structures, the products or services offered, profitability, and financial resources available for research and development (Adler, 2003). In this section, the various development stages will be discussed in more detail.

### **2.5.2. Domestic stage**

Companies in the domestic stage focus almost exclusively on the domestic market of a country during their production and marketing of the products and services. The main approach utilised by a company in the domestic stage is one of "one best way". The company approaches the market with a product that has been researched, developed, and customised to market conditions in the home-country. Due to the novelty of the product, it has limited competition. As a result, the profit margins tend to be high (Adler, 1997).

Due to the fact that the company focuses primarily on the domestic market, no products are exported to foreign countries, and international business is not viewed as being important. The focus during the domestic stage is the product or service. Because the product or service is unique and has no international competition, the company does not need to demonstrate sensitivity to cultural differences in the client country (Adler, 1997).

During this initial domestic stage, the organisational structure and management approach is centralised (Adler, 1997). Management approaches and employees transferred from the home country play a dominant role in the company. Companies in the domestic stage tend to view culture and global human resource systems as largely irrelevant from a business perspective. Limited attention is also given to international cross-cultural differences. Because domestic companies only provide their products or services to customers in the local market, they make the assumption that only the local way of doing things in the home culture needs to be considered during the development, manufacturing, and marketing of such products or services. Due to the company's strong focus on the domestic market, the need to make use of expatriates is limited.



### 2.5.3. Export stage

The export stage is considered the first stage of global strategy. It is characterised by the emergence of foreign markets for standardised consumer products. As the organisation increases its exposure to international markets the emphasis moves from the creation of a new product, to the marketing of the product in foreign countries (Hindle, 2003).

The typical company in the export stage could be a large national producer that starts exploiting its economies of scale to market and distribute products to other countries (Hindle, 2003). Export companies typically expand first to the closest bordering countries, before moving into unfamiliar parts of the world. During the initial stages of a company becoming international, its products or services are sold abroad, manufactured at home and controlled by their operations in the home-country.

In export-orientated companies, international assignments and assignees are often not viewed as being of high importance, and expatriate managers are not often utilised (Adler, 1997). The preferred approach is for home-based managers based in the home country to have geographical or product responsibilities, which include visiting the various off-site operations on a regular basis.

Where international managers are utilised on occasion, they are normally appointed in general management positions, and tend to be responsible for relatively large geographical areas. Most expatriates are sent out from the parent company, and very few managers are transferred from foreign countries into the parent organisation or between foreign operations.

Black et al (1999) comment that the focus of international people-management activities during the export stage is often the staffing, training, appraising, rewarding, and development of local nationals on the same basis as employees in the parent company. However, they also caution that the company may experience some difficulty at this stage when it begins to make international activities a stronger priority.



During the export stage, the organisation may decide to send its best employees out to its now-more-strategically important international operations. Unfortunately, the minimal attention on international assignments and assignees may make this action a difficult transition. Because the company has not valued international assignments, the best employees may be reluctant to go “out of sight and out of mind”.

#### **2.5.4. Multi-domestic stage**

According to Hindle (2003), a company in the multi-domestic growth stage is one that has numerous foreign operations in foreign countries. However, each of these foreign affiliates is primarily focused on local markets, competitors, etcetera. This situation results in multiple domestically focused operations. Such multi-domestic companies are most common in industries where competition in one country (or in a small group of countries) is independent of competition in others. Because competition for each geographically distinct unit within the company is focused on the country and the market in the unit’s location, a high degree of specialisation and adaptation of the unit’s value-chain activities is required.

The culture- and country-specific knowledge among local national employees at the operations in the foreign countries becomes important for the appropriate specialisation and customisation of the foreign subsidiary’s activities (Adler, 2003). As a result of the high need for country-specific knowledge, the use of international managers is still relatively low in multi-domestic corporations. The international managers tend to be of two types: executives or technical specialists. The executives often tend to be “career internationalists” who spend most of their careers outside the company’s home office and home-country. The technical specialists are generally on assignment for a relatively short time (one to two years) and are overseas for specific reasons (for example, to transfer a particular technology or to solve a specific operational problem).



During the multi-domestic stage, competent people but not outstanding performers or high flyers are typically sent to foreign countries as expatriates (Adler, 2003). The multi-domestic orientation generally does not lead to systematic policies and practices formed for expatriate selection, training, or repatriation. The reason for this lack of a structured approach towards expatriate management is that only a small percentage of employees in the company are actually utilised as expatriates on international assignments. Instead, multi-domestic companies tend to place more focus on international assignment compensation practices and policies in order to attract a sufficient number of reasonably capable international managers.

International operations are not highly valued or well integrated into the core business processes of the parent company during the multi-domestic stage. As a result, employees sent on international assignments are generally considered “out of sight, out of mind” from a parent company policy maker perspective (Adler, 2003; Black et al, 1999). These expatriate managers also often experience difficulty reintegrating back into the home office environment on completion of their international assignments. Further research conducted by Adler (2003) found that more than half of expatriates sent on assignments by international companies indicate that their foreign experience is damaging to their career and prospects in the company.

Black et al (1999) assert that it is of critical importance for multi-domestic companies to focus on all aspects of international assignments. International strategy formulation and implementation for the company in the multi-domestic stage tend to be primarily restricted to individual countries. In order for the country-based strategic plan to be effective, key executives must incorporate the important and unique aspects of the country, culture, and market where the unit competes in their business plans. It is therefore imperative for the success of the multi-domestic company to ensure that the right people are selected, trained, and prepared for a quick and effective adjustment in the foreign country, so that they can make timely and appropriate decisions about what and how things should be done in the local market.



### **2.5.5. Multinational stage**

As companies develop from the multi-domestic to the multinational stage of globalisation, they move their emphasis from marketing to price. During the multinational stage, both the sales and manufacturing functions are transferred to locations around the world (Hindle, 2003). Driven by the necessity to cut costs, multinational companies relocate large segments of their production facilities to countries where overhead costs and wages are lower.

According to Hindle (2003), a characteristic of the multinational stage is that a number of companies manufacture and sell almost identical products, with the only significant competition being on price. The primary product design and marketing assumption during the multinational stage is no longer the domestic stage's "one best way" or the multi-domestic stage's "many good ways", but rather "one least-cost way". The primary market becomes global, with no significant market segmentation. The only way companies can achieve competitive advantage is by optimising economies of scale, process engineering, and by sourcing critical resources on a worldwide basis.

In the multinational stage, companies develop, manufacture, and market products in various countries around the world. Input cost plays a significant role in the selection and utilisation of human resources and other resource inputs. Distribution of products takes place on a worldwide basis, and profits are made through increased economies of scale (Black et al, 1999). However, control over the production processes remains in the centralised hands of the parent company head office. In contrast to the multi-domestic stage, multinational companies become more centralised, reverting decision making back to the parent organisation in the home-country.



In the multinational company the emphasis falls on the employment of locals in the various countries, as opposed to making use of expatriates. It is no longer required of the major decision maker for the foreign operations to be an expert in a specific field. The individual should rather be a competent and experienced manager of various interdependent foreign operations. Therefore, companies in the multinational stage tend to make use of senior managers at the parent company to manage multiple foreign operations. These managers are better able to align the foreign operations with the company's strategic objectives and core management processes (Adler, 2003).

### **2.5.6. Global stage**

Black et al (1999) also refer to companies in the global stage as trans-national companies or multi-focal corporations. Companies at the global or trans-national stage of internationalisation are generally within industries where a company's position in one country is substantially influenced by its competitive position in another. The objective for the company with a global orientation is to coordinate value-chain activities on a global scale and thereby capture competitive advantages and links among countries.

In the global stage, top quality, least-possible-cost products become the minimum standard. Products and services become "mass-customised". The term "mass" is used in the sense that the development and manufacture of the products is influenced by the best ideas from sources across the world. "Customised" is used within the context of products that are modified and marketed to suit the requirements of very specific local populations and market niches (Hindle, 2003).

According to Hindle (2003), dynamics in the global stage tend to become more complex than in earlier stages of globalisation. The quest for world business becomes dominant during this stage. The primary orientation of the company is to align the various businesses, functions, and regions within the organisation with its strategic focus areas. Competitive advantage is obtained by means of strategic thinking, mass customisation, and out-learning competitors.



While effective global human resource management strategies did not play a significant role in the previously mentioned stages, they become essential during the global stage (Black et al, 1999). The effective management of the global workforce becomes a minimum requirement for organisational survival and success. As in the case of multi-domestic corporations, global strategy corporations also have geographically dispersed operations and units. However, in contrast to multi-domestic companies, trans-national corporations have extensive coordination between units in different geographical locations. This coordination and control is achieved through a variety of mechanisms.

An effective approach utilised by multinational corporations is the establishment of a common organisational culture in the organisation's worldwide operations (Black et al, 1999). Expatriate managers are sent on international assignments as the "glue of the company" to coordinate and integrate strategic activities, and not merely to achieve specific operational and project objectives.

In the global stage, the number of expatriates utilised by the company tends to increase (Adler, 2003). Trans-national corporations tend to utilise more international managers, both home-country and third country international managers, and place international managers in a variety of organisational levels within foreign operations.

### **2.5.7. Summary**

A discussion was conducted in this section on the various stages through which the organisation develops from a domestic company to a global company, as well as the impact these stages have on the human resources management practices related to expatriates and international assignments.



Black et al (1999) strongly assert that a company's international assignment policies and practices must "fit" the environment and must be congruent with each other, irrespective of the globalisation stage within which the company finds itself. The balance between the organisation's international assignment policies and practices and the market place creates an external fit. The balance and congruence among the five aspects of people management within a company (staffing, training, appraising, rewarding, and developing) constitutes internal fit. Without good internal and external fit, a company will experience significant difficulties in effectively formulating and implementing strategies.

## **2.6. Future trends of internationalisation**

### **2.6.1. Introduction**

According to Leonard (2005), *"Over the next 25 years, the world will see the biggest shift in economic strength for more than a century. Emerging economic giants will dwarf developed industrial economies so that within a generation, China will overtake the United States as the world's biggest economy;... as many as nine of the top 15 economies will be from today's Third World - with Britain overtaken by such countries as Taiwan and Thailand..."*

In order to be successful in this constantly changing global business environment, companies will need to adjust their mindsets, structures and processes. According to 21<sup>st</sup> Century Organisational Trends (author unknown), the following five trends will characterise companies during the 21<sup>st</sup> century



### 2.6.2. Global strategy

According to 21<sup>st</sup> Century Organisational Trends (author unknown), the 21<sup>st</sup> century company will be faced with increasingly globalised sales, manufacturing, research, and management. As a result of this need for a globalised approach towards business, a movement is expected to take place from (a) direct exports to other countries to establishing distribution centres in various off-shore locations, (b) from currently only having manufacturing taking place in different countries to decentralising all divisions of the organisation across the globe. Some of the reasons for these trends will be improved quality of international transport and communication at a reduced cost, the continuously expansive search for unexploited markets, and to optimally utilise regional cost and expertise differences.

Hindle (2003) refers to a so-called “third age” in the global strategy of multinationals. In this third age of globalisation, Hindle argues that multinationals “will have to create a new mindset to achieve global competitiveness in the post-imperialist age”. According to Hindle (2003), indications are that there will be a significant increase in the number of multinational corporations that will shift the operation and control of key business functions away from their head office. A growing number of companies are setting up regional headquarters or relocating specific head office functions away from the home-country. Hindle quotes a recent UNCTAD survey that indicates that 829 head quarters operations of multinationals were relocated between January 2002 and March 2003, nearly a quarter of them in developing countries.

Hindle (2003) also predicts that a stronger emphasis will be placed on the outsourcing of key business processes in companies to locations in the developing world, as opposed to only an outsourcing of non-core processes such as human resources (also known as “offshoring”). This outsourcing of key business processes is occurring at a rapid rate as information technology skills and networks make the spread of digital information increasingly easy.



According to a survey conducted by Accenture (as cited in Hindle, 2003: 108), a particularly strong growth is currently taking place in the offshoring of the finance and accounting functions, positions that until recently were viewed as critical positions from an head office control point of view. The results of the survey indicate that the views of companies are changing from a perceived loss of control during the outsourcing of business processes, towards a change in the nature of the control.

### **2.6.3. Flexibility**

The second trend identified by 21<sup>st</sup> Century Organisational Trends (author unknown) that will characterise companies during the 21<sup>st</sup> century is flexibility. Hellriegel et al (as cited in Robbins, 2003) predict that the 21<sup>st</sup> century company will be required to be much more flexible in its ability to adjust to constantly changing internal and external changes and developments.

This strong need for a much more dynamic and flexible work environment will be driven by the increasing diversity in the workplace, and the elevated tempo of change in technology and markets. The main focus of the change will be the fulfilment of differentiated customer needs. The extent to which the company is able to meet the customers' specific needs at any given moment in time will determine its competitive advantage in the global market place.

This strong need for flexibility will require organisational systems, processes, and employees that can respond quickly and appropriately to different situations. In order to facilitate this more flexible organisational approach, fewer detailed rules and procedures will be in place in the company. Employees will also be provided with greater autonomy, and encouraged towards higher levels of creativity and initiative (Robbins, 2003).



Hellriegel et al (as cited in Robbins, 2003) are also of the opinion that the relationship between employer and employee will change significantly in the globalised company. The employment relationship will be much more customisable, characterised by aspects such as telecommuting, job sharing, and a strong emphasis on payment for critical skills. The employee will be required to be much more flexible in an era of lifetime employability, as opposed to lifetime employment.

#### **2.6.4. Flat organisational structures**

According to 21<sup>st</sup> Century Organisational Trends (author unknown), globalisation is associated with increased competition, which has an immediate impact on the need to cut costs. In order to improve efficiency in the organisation, it is expected that management structures in the 21<sup>st</sup> century company will undergo significant changes. It is expected that the need for speed will lead to fewer differences in responsibility across hierarchical levels in the organisation. Fewer levels of management will empower employees to make decisions and display initiative. The communication and control functions of middle management will also be reduced as a result of improvements in information technology.

#### **2.6.5. Direct communication and networking**

Hellriegel (as cited in Robbins, 2003) indicates that definite changes will take place in the way that communication takes place in the 21<sup>st</sup> century company. These changes will be driven by new information technologies, as well as rapidly changing customer needs and competitor offerings. The expected increase in the complexity of the products and services offered by the company will also require an improved integration of the development, production, and marketing functions in the company.



According to Hindle (2003), the new information technology will facilitate direct communication to take place among employees across unit and organisational boundaries. In the process, formal chains of command may often be ignored. The tendency will be to move away from strong hierarchical organisational structures towards the utilisation of cross-unit and cross-department team structures.

#### **2.6.6. Global and diversified workforce**

In order to meet the increasingly complex human resources requirements in multinational organisations, indications are that an increasingly globalised labour market will also develop. According to Wessel (2004), the workforce in globalised companies will become more heterogeneous on a sexual, racial, cultural, and individual level. This more heterogeneous workforce will be the source of innovation, but also potential conflict or communication problems. This will require the ability to work with people from different backgrounds with different styles of communication, dress, interaction, and physical appearance.

Wessel (2004) asserts that the globalisation of people is the key aspect that will have an impact on a company's success in meeting the challenges of the global business environment. Wessel quotes a study conducted by the International Personnel Association, which found a positive relationship between a multinational organisation's ability to develop global leaders and the bottom-line success of the organisation.

Business leaders seem to agree with the results obtained from the above mentioned studies. Mr Jack Welch, the Chief Executive Officer of General Electric (Black et al, 1999) makes the following statement in this regard: *“The Jack Welch of the future cannot be like me. The next head of General Electric will be somebody who spent time in Bombay, in Hong Kong, in Buenos Aires. We have to send our best and brightest overseas and make sure they have the training that will allow them to be the global leaders who will make GE flourish in the future”*.



Similarly, Mr Larry Ellison, the Chief Executive Officer of Oracle Computers states: *“Isn’t it remarkable that right now Oracle employs 3 200 Indian citizens, paying constantly increasing salaries, providing a very high standard of living and helping to create a middle class? It will be even more remarkable when one of those 3 200 is running the company from her office in Bangalore. Don’t doubt it. That day is not far off”* (Hindle, 2003).

## 2.7. Summary

It becomes evident from the discussions in Chapter 2 that globalisation is here to stay, and that it has important implications for expatriates and their management. Cascio and Aguinis (2005) provide a good summary of the speed at which current developments are having an impact on the new global world: *“The global village is getting smaller every day”*. The extent to which companies will be successful in this new global village will to a large extent be dependent on their ability to adjust their corporate strategies and processes in line with the requirements of a much more complex and fast moving borderless market place. It also becomes clear that companies will need to manage an increasingly globalised labour force that will be much more heterogeneous in its demographics.

A detailed discussion was conducted on globalisation and the impact it has on the way business is taking place in the new borderless world economy. The various perspectives towards globalisation and the benefits or dangers associated with it were also taken into account. Within the framework of the new globalised world economy, a discussion was also conducted on the various development stages that companies go through in the process of internationalisation. As will become evident in the following chapters, the development stage within which a particular company finds itself has a significant impact on the approaches utilised by the company in selecting and managing its expatriates.



## **Chapter 3**

### **Expatriates**

#### **3.1. Introduction**

A key aspect having an impact on the success of organisations adjusting to the dynamic and complex globalised environment is the human resources these organisations employ in their various foreign operations, especially taking into account the expected increase in utilisation of expatriates by multinational companies. McCallum and Olson (2004) indicate that between 1.5 and 2 million Canadian citizens (5 to 6 percent) are currently living in other countries, while more than 4 million Americans live abroad in over 160 different countries. They also indicate an expatriation rate of 17.9 percent for the United Kingdom, and 4.3 percent for Australia.

Indications are that the number of people sent on international assignments may increase even further. McCallum and Olson (2004) quote the Association of Americans Resident Overseas, who indicates that 80 percent of all midsize and large companies in the United States make use of expatriates, and that 45 percent of these companies intend to increase the number they have on assignment overseas.

The above mentioned statistics emphasise the need for companies to consider their utilisation of their human resources on a much broader international scale in order to ensure success in the complex globalised business environment.

In Chapter 3 a detailed discussion is conducted on the use of expatriates, the approaches applied by international organisations in utilising expatriates, as well as the impact that failed international assignments have on both the organisation and on the individual.



### 3.2. Expatriate defined

The term “expatriate” is used continuously in this study. For clarification purposes, it is viewed important to obtain a sound understanding of the concept, as well as its applicability to the sample of individuals included in this research.

The Oxford Dictionary (1995) defines an expatriate as a person living or working abroad, especially for a long but limited period. Longman Concise Dictionary of Business English (Chan, 1999) defines an expatriate as “*a business employee, who has chosen to work and live in a place away from the country of which he is a national*”. According to (Chan, 1999), the concern with these two definitions is that they are too general, and are therefore not sufficiently specific or complete to be utilised in research on the topic.

Most definitions of expatriates used in human resource management literature provide a slightly more comprehensive and descriptive explanation. Cascio and Aguinis (2005: 440) define an expatriate as “*a generic term that is applied to any person who is working outside his or her home-country with a planned return to that or a third country*”. According to them, an expatriate can also be referred to as a foreign-service employee. They also include the term ‘third-country national’ in their description of an expatriate, which they define as a person who has relocated to another country on another assignment while working away from the home-country.

In line with the definition provided by Cascio and Aguinis, Briscoe (as cited in Chan, 1995) presents a definition for the overall expatriation process: “*Expatriation can be viewed as the process of moving from one country to another when staying on the payroll of the original employer. Therefore, this process can take many forms. At any particular location in the multinational firm, an individual manager may be a Third Country National and still be an expatriate from another country who is employed by and represents the parent company*”.



Van Heerden and Wentzel (2002) identify two categories of expatriates. The first type is referred to as ‘parent company or headquartered staff’ who are employees that may be seconded or transferred to foreign subsidiaries at some stage in their career with the objective of transferring skills to the local nationals employed at the subsidiaries. The intention is for these employees to return to the headquarters after a specific period of time. These employees could typically be utilised by the multinational company for long term assignments, short term assignments, and business travel.

Van Heerden and Wentzel (2002) refer to the second type of expatriate as ‘international staff’. These employees may start their careers with a multinational company from any country in the world, and have the ability to transfer their skills to any foreign subsidiary where they may be required in the company. These employees are also referred to as Third-Country-Nationals (Cascio & Aguinis, 2005; Beaverstock, 2000; Tung, 1987).

Within the framework of the above mentioned sources of expatriates, Runzheimer (2000) indicates that the most general job categories for expatriates are executive management (65 percent), sales/marketing (57 percent), engineer/scientist (44 percent), and technician/programmer (23 percent).

### **3.3. Duration of international assignments**

According to a survey conducted by Van Heerden and Wentzel (2002), the average length of time spent by expatriates sent on international assignments by South African companies varies between two to three years. As can be seen in Table 3.1 below, the average length of the international assignments also seem to vary dependent on whether the assignment is in a first world country or in a third world country:

**Table 3.1: Duration of offshore assignments**

<b>Duration of assignments</b>	<b>First World countries</b>	<b>Third World countries</b>
One year	0%	11%
Two years	28%	19%
Three years	33%	41%
Four years	6%	4%
Five years	0%	4%
Varying periods of assignment depending on specific assignment requirements	33%	22%

(Van Heerden & Wentzel, 2002: 15)

Beaverstock (2000) describes three types of expatriate task roles:

- The structure reproducer is responsible for establishing a structure in a foreign subsidiary similar to that which he or she knows from another part of the company. The person may be responsible for creating a marketing framework, implementing an accounting and financial reporting system, or commissioning a production plant.
- The troubleshooter is the individual who is sent to a foreign subsidiary to analyse and deal with a specific operational problem.
- The operational manager typically performs the role of participant in an already existing operational structure.

A criterion that can be utilised to distinguish between these categories of expatriates is to identify the reasons why people elect to make themselves available to companies to be sent on international assignments to foreign countries, as well as why international companies employ individuals for international assignments.



### 3.4. Reasons for people becoming expatriates

Suutari (2003) identifies the following reasons for people wanting to become expatriates:

- The individual often shows an interest in working on an international assignment. The person's decision to become an expatriate is influenced by expected experiences and challenges associated with international assignments;
- International assignments are often associated with definite financial benefits. According to Suutari (2003), differences in cost-of-living and taxation practices across countries can have a considerable impact on the individual's standard of living. McCallum and Olson (2004) agree that financial incentives play a significant role in attracting individuals to international assignments. According to them, one of the primary factors taken into account by the prospective expatriate is the extent to which his overall living situation will be affected by the specific assignment;
- Personal development through the availability of challenging jobs in foreign countries is often viewed as a central consideration in the expatriate's decision to consider going on an international assignment (Suutari 2003). A study conducted by Black et al (1999) confirms this observation, indicating that candidate expatriates with a Masters degree in Business Administration (MBA) ranked personal growth and gaining a cross-cultural experience as the main reason why they would accept international assignments;
- Prospective career development opportunities are often considered as critical factors in the expatriate's decision to accept an international assignment (Suutari, 2003). According to Black et al (1999), prospective expatriates ask themselves two fundamental career questions when considering an offer to go on a global assignment: Will this assignment place me in a strategic business role?, and Will this assignment lead to my advancement? Taking into account that the average global manager has more than fourteen years of experience in their parent companies, they want to be certain that an overseas assignment does not leave them out-of-sight and out-of-mind.



Commenting on the above mentioned reasons for individuals considering expatriation, McCallum and Olson (2004) assert that organisations are required to effectively meet the needs of expatriates who have different expectations about international assignments compared with their predecessors. They view international assignments as advancement opportunities for longer term career growth and development. As a result, companies are in the process of moving away from haphazard and unplanned assignments. Instead, international assignments are viewed as strategic tools that can be employed in achieving career and business development opportunities in line with the strategic direction and objectives of the company.

### **3.5. Reasons for multinational companies making use of expatriates**

In the previous investigation, the emphasis was placed on the reasons that influence a person to accept or refuse an offer for an international assignment in a foreign country. However, an equally important point of discussion would be the reasons why companies elect to make use of expatriates and international assignments.

The traditional approach utilised by companies was to send employees with particular expertise to their operations abroad with the purpose of fulfilling specific technical responsibilities (Stoltz-Loike; 2002; Jagatsingh, 2000). Expatriates were either used on long term assignments for managing specific business ventures or projects, or they were sent on shorter term assignments with the purpose of transferring specific skills to the local nationals. Minimum attention was given to the skills and knowledge gained by these expatriates while employed at the foreign operations, or the impact the assignment would have on the expatriate's longer term career.

Research indicates that this traditional perspective towards expatriates being sent on international assignments has changed significantly. A survey conducted by Van Heerden and Wentzel (2002: 15) identified eight key reasons why South African companies make use of expatriates for international assignments. These eight reasons are presented in Table 3.2:

**Table 3.2.: Reasons for companies utilising international assignments**

<b>Reasons for Assignments</b>	<b>% Responses Received</b>
Business expansion reasons	16%
Knowledge and technology transfer	16%
Managerial skills shortage in host-country	14%
Technical skills shortage in host-country	14%
To represent the home-country	12%
To establish a specific company culture in subsidiaries	11%
Career development of employees	10%
Company retention strategy	7%
Total	100%

(Van Heerden & Wentzel, 2002: 15)

Swaak (1995) classifies assignments as follows based on their specific purpose:

- Assignments to develop specific skills and talents;
- Short- and long-term assignments where specialists are utilised to carry out specific duties, and then to transfer such skills and knowledge to the local nationals;
- Project assignments, where specialists are sent on short-term assignments in order to develop and implement specific plans and projects, and then to return to the parent company or be sent on other expatriate assignments;
- Long term or permanent assignments, where interested individuals are sent on assignments for periods of two years and longer. These expatriates may then elect to remain in the host country as local employees on completion of their assignments;
- Management assignments, where senior executives oversee and control an overseas subsidiary in order to provide stability in an operation;
- Regional coordination assignments, where specialists who excel in managing local operations oversee and integrate various countries in a region;
- Worldwide management assignments, where global career executives oversee and integrate the activities of different regions.



Edstrom and Galbraith (as cited in Beaverstock, 2000) suggest that international assignments are utilised by trans-national companies for one of three main reasons, namely: employment into key positions, development of management skills, and organisational development. These three reasons correspond with the motives identified by Kozloff (1996) for companies utilising expatriates, which will now be discussed:

- **Co-ordination and control:** From an organisational perspective, one of the reasons for utilising expatriates on international assignments is focused on the need of companies to control and integrate their international business ventures (Kozloff, 1996). According to Beaverstock (2000), trans-national corporations typically utilise expatriates to support the strategic focus areas of the business. The rationale for the expatriate appointment would therefore be to manage and coordinate the achievement of the corporate business objectives.
- **Transfer of corporate culture and values:** Perkins (1997:62) suggests that *"organisations ... need to develop a 'corporate memory', setting down in a structured and formal way 'best practice', so these can become common practices"*. The foundation for Perkins' assertion in this regard is that expatriates are used as an organisational mechanism to transfer 'corporate memory', or "valuable project knowledge and expertise" to the local operations.
- **Technology and information transfer:** As a result of advances in transportation and communication technology, companies are expanding into an increasing number of countries across the world. The coordination of developments and activities in such countries require the skills of appropriately competent expatriates. An important role of the expatriate in this regard is to transfer the technology developed in other parts of the world into the local environment in an efficient and culture-friendly way (Frandsberg & Kjellman, 2005). According to Bender and Fish (2000), the focus of the multinational organisation should be to move towards a global model of information management, where knowledge and ideas are shared and incorporated among the organisation's subsidiaries worldwide.



- **Management development:** International assignments are increasingly being viewed by companies as a valuable instrument for developing global leaders in the organisation (Suutari, 2003). In order to develop the required global skills among their employees, trans-national corporations utilise international assignments as an instrument to enhance the career development opportunities for employees.
- **Developing cross-cultural organisational capabilities:** For companies to develop culturally successful business strategies on a global basis, it is of critical importance for the people that drive and implement these strategies to have international experience. Managers with international experience are more likely to make strategic decisions that reflect valuable knowledge concerning foreign customers, as well as the social, political, legal, and economic systems in the company's markets. The only way these managers will be able to gain such knowledge and information on the foreign markets would be to expose them directly to the work and living conditions in the particular country (Frandsberg & Kjellman, 2005).

### 3.5.1. Summary

As can be seen from the above mentioned discussions, companies have very specific reasons why they make use of expatriates for international assignments. Kubes and Loh (2006) strongly assert that the reasons why companies utilise expatriates in foreign operations need to be investigated in exactly the same way as any other company investment, with the emphasis being placed on the international assignment's capacity to add value to the company's business. According to Kubes and Loh (2006), the company must have a very clear understanding of why, how, and where each specific international assignment is utilised, as well as the extent to which it is aligned with the strategic business purpose of the organisation.



### 3.6. Approaches to expatriate staffing

One of the more challenging issues facing multinational companies is the correct staffing of the foreign operations. According to Treven (2001), multinational companies typically make use of five different approaches in selecting the appropriate employees to represent them in the foreign subsidiaries, namely:

- **The Ethnocentric approach:** According to Treven (2001), the underlying objective of an ethnocentric staffing approach is for all key management positions in the foreign operations to be filled by parent-country nationals - employees who are relocated from the company's headquarters in the parent-country to foreign operations in the host countries. Multinational companies typically make use of parent-country nationals to maintain and facilitate organisational control and coordination in the international subsidiaries. The company would transfer the best technically and managerially competent employees available who are familiar with the head office's strategic objectives, policies and practices to off-shore subsidiaries. This is done to effectively transfer business and management practices from the headquarters to the subsidiaries. By making use of parent-country nationals, the company is in a stronger position to exert control over the operations and functioning of subsidiary. The company is also able to ensure that the subsidiary adheres to the company strategies and policies (Frandsberg & Kjellman, 2005).
- **The Polycentric approach:** The polycentric staffing approach is utilised where host-country nationals are appointed to manage the operations in the foreign country, and parent-country nationals fill the senior management positions at the parent company head office (Frandsberg & Kjellman, 2005). The multinational company may typically employ the polycentric approach of appointing host-nationals to be perceived as a local company as part of a local responsiveness strategy. In some cases the company may not have much of a choice than to make use of the polycentric policy due to the fact that the host government may dictate that key managerial positions be filled by its nationals.



- **The Regiocentric approach:** A third approach to international staffing is the regiocentric policy, which Treven (2001) defines as the functional organisation of the business processes on a more-than-one country basis. An example of the regiocentric approach would be a multinational company that divides its operations into geographical regions, and employs, develops, and transfers staff within these regions.

A key reason for making use of a regiocentric approach is that it facilitates the interaction taking place between local national executives transferred from operations in the region to regional head office, and executives transferred from the parent company to the regional headquarters. This approach also shows some level of sensitivity towards local conditions in the host-country, as almost all the positions at the local operations are filled by host-country nationals. A further advantage is that a regiocentric approach can be utilised as a transitional step where the multinational organisation wishes to develop from a purely ethnocentric or polycentric approach to a geocentric approach (Treven, 2001).

- **The Geocentric approach:** In the geocentric staffing approach, the most competent employees are appointed in the key positions throughout the organisation, irrespective of their nationality (Treven, 2001). Dowling indicates that there are two main advantages to the geocentric approach: It eliminates the "federation" restrictions associated with the polycentric approach, and it enables a multinational firm to develop an executive team with international experience.

In the geocentric approach, multinational companies may at times employ third-country nationals at their foreign operations (Carrel et al, 1998). Third-country nationals are external individuals who are appointed into management positions at the company's foreign operations on the basis of their technical expertise and their experience of managing foreign operations as expatriates. They are often people who have become professional expatriates and who accept international assignments at different companies as they become available (Black et al, 1999). Third-country nationals may also have worked in the specific foreign country previously and would therefore have a better understanding of the local culture and practices.



- **The Ad hoc approach:** As opposed to systematically selecting the most appropriate option from the above mentioned approaches, a multinational company may merely proceed on an ad hoc basis in selecting its executive staff in foreign operations. This option could also be referred to as a policy by default, as no conscious decision is made in selecting the ad hoc policy. According to Dowling et al (1999), the ad hoc approach is often a result of a lack of corporate interest, inexperience, or both.

The major drawback associated with the Ad hoc approach is that the multinational company will tend to make inefficient use of the human resources available in the organisation. A further definite disadvantage is that the company is poorly placed to either anticipate threats or profit from opportunities in its external environment. With an ad hoc staffing approach in place, the responses of a multinational company to external developments tend to be reactive rather than proactive, and a consistent organisational human resources strategy that fits the overall business strategy of the organisation is difficult to achieve (Chan, 1999).

### **3.7. Factors that impact the choice of staffing approach**

According to (Treven, 2001), it is possible for combinations of the above mentioned staffing approaches to be applied in the multinational organisation, dependent on factors in both the internal and external environment within which it is functioning.

As a result of changes in the environment within which the organisation is functioning, the multinational company is required to make constant changes to its business strategies. These changes in business strategy have a direct impact on the organisational structures in place, which in turn have an impact on the decisions made related to human resources in the company. Several human resource management variables (for example employee availability, time and cost restrictions, interference by host governments, etcetera) also need to be taken into account which influence the choice of staffing approach utilised in the multinational company (Treven, 2001).



The choice of an appropriate policy on executive nationality at the foreign operations tends to be a reflection of the organisational needs (Dowling et al, 1999). An example in this regard would be if the organisation places a high priority on organisational control, an ethnocentric policy will be adopted. Multinational companies who wish to internationalise management and the company's products would prefer making use of a regiocentric or geocentric policy.

From a more practical perspective, a study conducted by Ondrack (as cited in Chan, 1999) found that multinational companies prefer making use of either local nationals or parent-country nationals. Third country nationals are only employed as a last resort if the appropriate skills are not available inside the organisation. Ondrack also found that all the multinational companies included in the study applied a combination of the geocentric approach to coordinate certain centralised control functions (for example financial control and executive management), and a more decentralised poly/regiocentric approach in managing market-oriented functions (for example sales and human resources).

### **3.8. Expatriate failure**

One of the most challenging issues facing these multinational firms is the management of the human resources required to ensure the successful management of their diverse international interests. The cost of sending people overseas on international assignments is estimated at around one million rand per year for a three-year assignment for expatriates in executive positions. A definite concern in this regard would be the results obtained from research literature, which indicates that expatriate failure is a continual and persistent problem experienced by multinational companies (Trompenaars & Hampden-Turner, 2004; Van Heerden & Wentzel, 2002; Schumacher, 2000).

In order to ensure a sufficiently accurate discussion of expatriate failure and the costs involved, it is important to clarify exactly what is meant by the concept.



### 3.8.1. Expatriate failure defined

A commonly accepted definition for expatriate failure is the “*premature return or recall of an expatriate to the home-country before the period of assignment is completed*” (Bampton, 2003; Vermeulen, 2002; Treven, 2001; Morley et al, 1997; Dowling et al, 1999). In line with the above mentioned definition, Harzing (1995) indicates that most research publications define and measure expatriate failure as “*the percentage of expatriates returning home before their assignment contract expires*”.

Some disagreement seems to exist among researchers on the usefulness of describing expatriate failure in such a narrow way as specified in the above mentioned definition. Dowling et al (1999) argue that an expatriate may be ineffective and may experience difficulty adjusting to the environment in the foreign country. However, his contract may not be terminated by the company. If the manager is experiencing difficulty coping on a cultural level, the performance of the business unit will be affected, which may result in low morale among host-country nationals or dissatisfied clients. Within the framework of the above mentioned definition of expatriate failure, such an individual will not be viewed as a failure, despite the damage he or she will be doing by remaining on the contract. Taking into account the above mentioned discussion, Dowling et al (1999) are of the opinion that the return rate can not be considered as being the ideal measure of expatriate success or failure, and that it may underestimate the real extent of the problem.

A more comprehensive definition of expatriate failure is presented by Black and Gregersen (2006), who propose that “*expatriate failure can be defined in terms of early return home or termination*”. However, they add that the following areas need to be incorporated into the definition of expatriate failure:



- Poor performance while on international assignment;
- Personal unhappiness and frustration experienced by the expatriate and/or his/her family with the international assignment;
- An inability to adapt to the living and work conditions in the foreign country;
- Poor relations with local employees, government officials, customers, suppliers, etc.

In a study conducted by Latta (2004) among multinational companies, the definitions of assignment failure most commonly identified by the participants were:

- Early return before contract expires: 72 percent;
- Inability to meet business objectives: 71 percent;
- Adjustment problems experienced by expatriates at the foreign operations: 49 percent;
- Inability to meet career development objectives: 32 percent.

Despite its limitations, the most common definition used for expatriate failure is that the expatriate is unable to perform effectively in the international assignment, and returns to the home country before the expiry of his international assignment contract (Vermeulen, 2002; Yavas, 2001, Chan, 1999). This definition is also generally utilised by researchers and multinational companies to calculate actual expatriate failure rates, and to highlight the problems encountered in staffing overseas subsidiaries with parent-country nationals and third-country nationals.

### **3.8.2. Expatriate failure rates**

An annual survey conducted by Van Heerden and Wentzel (2002) indicates that 12 out of the 30 South African companies included in the survey experienced turnover of expatriates during the period 1 June 2001 to 31 May 2002. A total of 21 expatriates left service at their own choice, which indicates a 9 percent turnover in the average number of assignees lost in the twelve companies concerned. Seven companies participating in the survey (23 percent) experienced “failed and returned” expatriates during the period 1 June 2001 to 31 May 2002. A total of 20 assignees returned to the home company. All of these 20 expatriates were placed on international assignments in third world countries.

These statistics indicate that South African companies are experiencing significant difficulty in managing the failure rates of their expatriates. The statistics seem to be in line with international statistics.

According to Treven (2001), the proportion of American expatriates who fail in their global assignments and return prematurely ranges from 20 percent to 40 percent, with the higher rates associated with assignments in underdeveloped or developing countries. Yavas (2001) agrees with Treven, asserting that the failure rate among expatriates who are sent on international assignments to underdeveloped countries can be as high as 70 percent. Beaverstock (2000) suggests that it has been "*estimated that between 20 to 50 percent of personnel sent abroad return prematurely from their overseas assignment*".

One of the earliest empirical studies on expatriate failure rates was conducted by Tung in 1982 (Beaverstock, 2000). This study surveyed a number of multinational companies from the United State of America, Europe, and Japan. As can be seen in Table 3.5 below, all the multinationals included in the study reported significant expatriate failure rates.

**Table 3.3.: Expatriate failure rates**

Recall Rate Percentage	Percentage of Companies
<b>U.S. Multinationals</b>	
20 – 40	7%
10 – 20	69%
< 10	24%
<b>European Multinationals</b>	
11 – 15	3%
6 – 10	38%
< 5	59%
<b>Japanese Multinationals</b>	
11 – 19	14%
6 – 10	10%
< 5	76%

(Tung as quoted by Beaverstock, 2000)



Tung (as cited in Carrell et al, 1998) also found that the expatriate failure rates for companies from the United States of America were higher than the rates for European and Japanese companies. Morley et al (1997) confirm Tung's findings in this regard, indicating that the failure rates among European companies tend to be lower compared to those of multinational companies from other nationalities. Their explanation for this difference is that European companies tend to prepare and manage their expatriates better than their counterparts in America. They also argue that European companies are willing to accept lower performance standards than American companies before taking action to remove their expatriates from their assignments.

From the above mentioned observations, it becomes evident that expatriate failure is a serious problem experienced by multinational companies across the world, especially taking into account the cost implications of an expatriate's premature return for both the company and the individual.

### **3.8.3. Costs of expatriate failure**

An expatriate's early return from international assignment is expensive for both the company and the individual concerned. Internationally, the direct costs associated with a failed overseas assignment can vary between US\$200 000 (R1.5 million) and US\$1.2 million (R9 million) (Schapira et al, 2005; Luthans & Farner, 2002). These costs will increase even further if the failed expatriate's actions have caused damage to an overseas business operation. Additional expenses will also be incurred if another parent-country national is sent to replace the failed expatriate at the foreign operations.

Black et al (1999) indicate that the costs involved with expatriate failure can be divided into eight categories. Herewith, a more detailed discussion on each of these categories.



- **Failed assignments:** The costs involved with sending a manager on an international assignment are three to five times what it would cost to employ the same manager domestically (Melles, 2005). Van Heerden and Wentzel (2002) indicate that the costs associated with expatriate failure for South African companies range from R500 000 to R1.5 million per assignment. Typical costs associated with expatriate failure usually include remuneration, accommodation, training, and travel and relocation expenses. In the case where the expatriate does not complete his assignment, a substantial part of the money spent by the company on the expatriate is lost.
- **Direct moving costs:** The most direct costs of failed assignments are those associated with the physical transport and movement of the expatriate (Van Heerden & Wentzel, 2002). Black et al (1999) indicate that it is very expensive to relocate an expatriate and his family and belongings overseas. They calculated that a typical transfer to Tokyo from the United States might cost US\$75 000 (R562 500). These costs would include US\$8 333 (R62 500) relocation allowance, US\$19 000 (R142 500) temporary living costs, US\$14 000 (R105 000) brokers' commission, US\$11 000 (R82 500) one-way travel to Japan, US\$20 000 (R150 000) moving costs, and US\$3 000 (R22 500) property management. It would cost approximately a further US\$60 000 to US\$70 000 (R450 000 to R525 000) to return the expatriate and family back to their home-country, plus an additional US\$75 000 (R562 500) to send a replacement. Based on these calculations, the relocation costs alone can therefore be more than US\$220 000 (R1.65 million) for a failed assignment.
- **Costs as a result of non-productive time:** During the expatriate's pre-departure preparations, the individual typically goes through a transitional period where he or she receives a full salary and expatriate benefits but is not capable of fully performing his duties (Schapira et al, 2005). On his arrival on the international assignment in the foreign country, the individual also typically goes through a phase of adjusting to the new culture, the environment, and the new position. These periods are often referred to as "down-time". Schapira et al (2005) view these down-time periods as normal in the expatriate's integration process into the foreign environment.



Unlike expatriates who recover, adjust to, and perform well on their international assignment in the foreign country, those who fail provide no long term return on the downtime. A further concern highlighted by Yavas (2001) is that, on the expatriate's arrival in the foreign country, all the additional benefits received (for example foreign service premium, housing allowance, education allowance, cost-of-living differential, tax-adjustment allowance, etcetera), usually at least double the person's total compensation package. These expenses in turn double the cost of the adjustment downtime, for which there is no long-term return in the case of a failed assignment.

- **Indirect costs:** Schapira et al (2005) assert that the indirect or "invisible" costs associated with expatriate failure are more difficult to calculate in financial terms. However, these indirect costs can prove to be much more expensive for the company, depending on the expatriate position involved. Schapira et al calculate that the costs associated with expatriate failure range from US\$200 000 (R1.5 million) to US\$1.2 million (R9 million) per assignment. According to Schapira et al (2005), these costs only reflect directly identifiable expenses, such as compensation, training, orientation, development, and termination. These costs could easily be twice as high if indirect and hidden costs associated with failure and underperformance were included.

From an individual point of view, expatriate failure also has a directly negative impact on the well-being of the expatriate and his family. Taking into account the fact that the cost involved with sending an expatriate on an international assignment is typically three times it would have cost to appoint a person in an equivalent position in the parent company, a failed assignment has the potential to have a seriously detrimental impact on the expatriate's career (Black & Gregersen, 2006). A failed assignment can also lead to the expatriate experiencing a serious loss of self-esteem, loss of reputation among colleagues, and a serious setback from a promotional opportunities perspective.



- **Underperforming expatriate managers:** Black et al (1999) use the term “brownouts” to identify expatriate managers who do not return prematurely from their assignments, but who are nevertheless ineffective in performing and executing their responsibilities. They estimate that between 30 percent and 50 percent of all expatriates fall into this category. Schapira et al (2005) assert that managers who do not perform well on international assignments often do not provide an adequate return of investment for the multinational company. These managers may initiate inappropriate programmes or projects that cost time and money, and they may damage relationships with locals that are difficult to repair. They may also cause high-potential local managers identified for empowerment and future appointment into senior positions to leave the organisation.
- **Turnover after repatriation:** Repatriation is often the least considered aspect of global assignments. However, it could also be the most costly (Cascio & Aguinis, 2005; Black et al, 1999). Research indicates that approximately 25 percent of managers resign from their companies within one year after their return to the parent company. Aoun (2006) goes so far as to assert that up to 70 percent of overseas assignees change employers when their assignment is completed. Kubes and Loh (2006) indicate that multinational companies on average spend US\$150 000 (R1.125 million) to US\$250 000 (R1.875 million) on all the expenses (salary, allowances, etc.) for an expatriate per year. For the average four-year assignment, the typical US firm invests from US\$1 million (R7.5 million) to nearly US\$3.5 million (R26.25 million) per manager. This investment is especially important if the expatriate has been identified for succession planning and accelerated management development.



- **Downward-spiralling vicious cycles:** Black et al (1999) assert that an interaction among all the aforementioned costs associated with expatriate failure have the potential to create circumstances that set in motion a downward-spiralling cycle, which may lead to a serious erosion of the company's global advantage. Failed global assignments, rumours of "brownouts", and turnover among repatriates can lead the best and most competent people in an organisation's worldwide operations to view international assignments as being potentially detrimental to their careers. This reputation makes it difficult to recruit and send top-quality candidates on international assignments, which in turn increases the likelihood of more failures. This downward spiralling quality of candidates and performance can feed on itself, gaining momentum as the process continues.
- **Erosion of executive capability at the parent company headquarters:** Kubes and Loh (2006) indicate that potentially the most dangerous consequence of the above mentioned vicious cycle would be a shortage of leaders who have vital understanding and experience in the global arena. This lack of international experience can result in poor strategic management and a negatively impacted competitive position globally. This mismanagement ultimately leads to a loss of competent managerial potential, which is a fatal flaw for globalisation. Without international experience, executives are unable to formulate and implement global strategy accurately.

### 3.8.3.1. Summary

As can be seen from the aforementioned discussions, expatriate failure is very costly and can have a substantially detrimental impact on the competitiveness and success of the organization. Given the high failure rate among expatriates and the costs associated with expatriate failure as discussed so far, it is critically important to accurately identify the reasons why expatriates who are sent on international assignments to foreign countries fail (Kubes & Loh, 2006).



### 3.8.4. Reasons for expatriate failure

A number of studies have been conducted in South Africa and internationally to investigate the reasons why expatriates who are sent on international assignments fail.

According to Hawley (1995), the most common reasons for South African expatriates failing to complete their international assignments in other African countries are:

- a poor understanding of the local culture and language;
- an unwillingness to train and empower the local nationals;
- insufficient preparation and counselling of the expatriate and his/her family before their departure on assignment;
- ethnocentrism where the expatriate may have the attitude that his/her own culture is superior to that of the host nation.

A survey conducted with South African companies involved with expatriation indicated the following main reasons for failed assignments (Van Heerden & Wentzel, 2002):

- Personal reasons : 62 percent
- Health considerations : 10 percent
- Performance-related matters : 28 percent

In the above mentioned statistics, only 28 percent of the reasons for expatriate failure can be attributed to the individual's technical competence and actual performance in the work environment. The vast majority of the reasons for failure (62 percent) were associated with personal factors relating to inter alia the expatriate's spouse or family, or his personal and living environment external to the job.



The results obtained from studies conducted in South Africa on expatriate failure seem to correlate well with international findings. Brotchi and Engvig (2006) identify the following factors as the key reasons for expatriate failure (in descending order of importance):

- inability of spouse to adjust to the living conditions in the foreign country,
- expatriate's own inability to adjust to the foreign environment,
- impact of the expatriation process on the family,
- expatriates' levels of emotional maturity,
- expatriate's inability to cope with pressure associated with managing larger overseas responsibility.

Similarly, Van Weerdenburg (2006) identifies three primary reasons why employees who are sent on international assignments fail, namely:

- their families are misjudged, or are not even considered at the time of selection;
- expatriates are selected based on their domestic track record;
- expatriates lack adequate cross-cultural training.

A major reason for the high expatriate failure rates experienced by multinational companies is the inadequate selection criteria and procedures utilised during their selection of candidates for international assignments (Van Weerdenburg, 2006).

Van Weerdenburg (2006) argues that most international companies still focus their efforts during their selection of candidates for expatriation solely on two criteria, namely technical ability and willingness to go on an international assignment. Similarly, a PriceWaterhouseCoopers survey (as cited in McNulty, 2004) indicates that the most popular expatriate selection criteria utilised by 270 international companies are:



- Job-specific and technical skills
- Leadership skills
- Career development opportunity for the employee
- Language ability
- Ability of family to adjust to living conditions in the foreign country
- The employee's ability to effectively interact with people from other cultures

Interestingly, the following criteria were listed as being the least important during the selection of candidates for international assignments (McNulty, 2004):

- Ability of the spouse to effectively interact with individuals from other cultures;
- The educational needs of the children;
- Emotional maturity and resilience;
- The impact of the international assignment on the spouse's career, and
- The suitability of the individual and the family from a lifestyle perspective.

The above mentioned criteria were also found the most common reasons for expatriate failure.

Research carried out on South African companies indicates very similar results. A survey conducted on South African companies making use of expatriates (Van Heerden & Wentzel, 2002) found that only 48 percent of the survey participants apply proper selection processes on future expatriates prior to assignments. Of the above mentioned 48 percent, only 29 percent of the participants focus on aspects other than technical or managerial competence during their selection of future expatriates.

The consequences of multinational companies applying such a haphazard and non-scientific approach in selecting expatriates for international assignments can be severe and wide-ranging and very often lead to expatriate failure. Cascio and Aguinis (2005) are of the opinion that the lack of appropriate expatriate selection processes is one of the reasons for the high failure rate of American expatriates.



### **3.9. Summary**

In Chapter 3 an investigation was conducted into the nature of expatriates, the various categories of expatriates, as well as the staffing approaches employed by international organisations when sending expatriates on international assignments.

The consequences and cost implications involved with failed international assignments were also considered, as well as the reasons why so many international assignments end in failure. The discussion on the reasons for expatriate failure forms an introduction to the investigation that will be conducted on the impact of the various phases of the international career cycle on expatriate success.

From the above mentioned discussions it becomes evident that the dynamics involved with the management of expatriates for international assignments are significantly more complex when compared to the demands within a domestic human resource environment. In Chapter 4, the expatriate international career cycle will be investigated, with specific reference to pre-departure preparation and selection.