

International Human Resource Management
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Special Topics in Internationalization

Università degli Studi di Bergamo

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Bergamo, ITALY



1. Introduction

2. Strategic Functions of International HRM

3. Approaches to Managing People

4. Managing Expatriates

5. Managing People Abroad

6. Resources & Human Resource Management

7. Implications for Practice



■ Learning Objectives

- Articulate **“3” DISTINCT APPROACHES** to international HRM.
- Understand the **ROLES** of expatriates.
- Explain **KEY FACTORS** in expatriate selection.
- Discuss **SOURCES** of stress for expatriates & possible **SOLUTIONS** to cultural shock.
- Apply the **VRIO FRAMEWORK** to explain the nature of HR practices.



What is ‘International Human Resource Management’?

Introduction



■ What is HRM?

❖ ... is the approach a company takes to manage its most valued assets – the **PEOPLE** who implement its strategy.

❖ Opening & operating a business requires:

- Planning human resource needs;
- Recruiting & retaining people to meet those needs;
- Motivating them to perform well; &
- Upgrading their skills



❖ **WHY** is HRM so **DIFFICULT** for MNCs?

- (1) Differences in leadership styles & management practices.
- (2) Variations in the mix of costs & labor productivity.
- (3) Institutional differences (regulations, hiring & firing practices)
- (4) Dual career constraints & family obligations in terms of international assignments



■ A Driver of Firm Internationalization

- ❖ **Expatriates:** A person residing in a country & take positions outside their home country.





■ Is International Assignment Good for Career Trajectory?

Positive career outcomes

- Greater **'RESPONSIBILITIES'**
- Career **'PROGRESSION'**
- **'SKILL'** improvement & **'EXPERTISE'**
- Cultural **'AWARENESS'**
- **'CONFIDENCE'** in overcoming challenges
- **'CREATIVITY'** through new ways of doing things

Negative career outcomes

- **'SLOW TO REWARD'** a manager's successful international experience with expanded leadership responsibilities
- **'NO GUARANTEE'** for a promotion
- The **'GAP'** between life at home versus "over there" can create professional, family, & personal problems
- Expatriates' **'DISSATISFACTION'** with the fact their companies recognize their accomplishments

How to keep the tension between these "2" aspects?



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■ The Perspective of the Expatriate

❖ Definition of expatriates

- ... refer to those who leaves their native country to live & work in another.
- Duration of assignments: **3–5** years

❖ Trends in Expatriate Assignments

- A burst in **worldwide demand** for expatriates.
- **Shortage of skilled locals** for start-up operations.
- **Short-term assignments** are popular because:

“They are more cost-effective than long-term assignments & they allow companies to transfer skill sets quickly & easily”.





■ The Perspective of the Expatriate

❖ Stereotype

- Traditionally, expatriates were ~~mid-level executives~~ being developed for greater responsibilities.
- Now, companies are changing their ~~traditional profile~~ of an expatriate in terms of age.



❖ The Young, the Old, and the Restless

- Young employees: **Single**, more **mobile**, & **adaptable** to change.
- Female employees: **20%** of expatriates (↑)
- **Third**-country nationals (↑)
- Well-educated executives from **emerging economies**(↑)



■ What is the Major Role of Expatriates?

❖ Knowledge Transfer

- Smooth transfer of technology, knowledge, knowhows from the HQs to its foreign subsidiaries.
- Expatriates ensure the quality of products & services offered in the local market in line with the expected standards set by the HQs.

❖ Control

- Operational & financial oversights.

❖ Learning

- Parent country nationals can accumulate knowledge of foreign operations & learn effective best practices in different cultural & market environments.

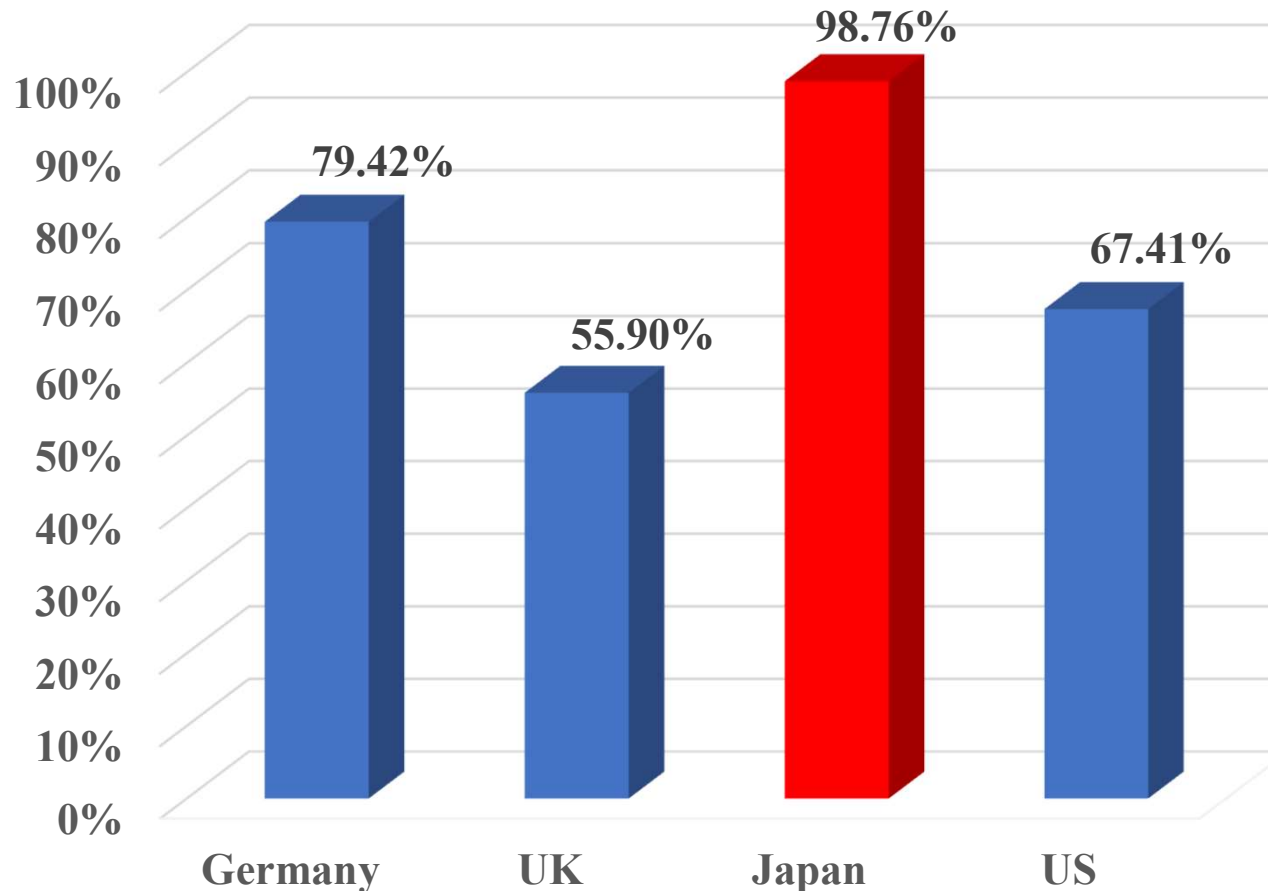
❖ Cross-Border Communication

- Expatriates act as coordinators to promote information sharing in horizontal & vertical relationships within the MNC network.

Source: Oki (2017).



■ The Origin of Expatriates (Home Country Nationals)



Source: Tungli & Peiperl (2009: 160).

The Strategic Function of International HRM



■ The Perspective of the Expatriate

TABLE I Reasons for Filling Managerial Positions With Expatriates

	Germany	U.K.	Japan	U.S.	Total	N	F	p(F)
To set up a new operation	4.70	5.13	5.21	5.25	5.07	126	1.77	ns
To fill a skill gap	4.18	4.83	4.68	5.33	4.82	127	8.68	***
To develop international management skills	4.91	4.77	4.11	4.53	4.63	125	3.62	*
To train and orient local staff	4.41	4.57	4.32	4.61	4.50	127	0.50	ns
To control the operation	4.00	4.07	4.61	4.53	4.29	124	2.47	ns
To ensure the same company standards worldwide	4.48	4.00	3.56	4.43	4.22	124	2.79	*
To coordinate with headquarters	4.12	3.80	4.68	4.16	4.14	126	2.06	ns
To provide career development opportunities	4.03	4.53	3.41	4.23	4.14	124	4.71	**
To establish and maintain corporate culture	4.09	3.83	3.74	4.14	3.99	126	0.74	ns
To learn about local business practices	4.30	3.90	4.11	3.60	3.94	124	3.10	*
To maintain the image of the operation as "foreign"	3.15	1.90	2.72	1.91	2.35	124	11.74	***
To find jobs for surplus managers	1.88	1.60	1.72	1.68	1.72	125	0.64	ns

Each item was rated on a 6-point scale (1 = very unimportant to 6 = very important).

* $p < .05$

** $p < .01$

*** $p < .001$

Source: Tungli & Peiperl (2009: 160).



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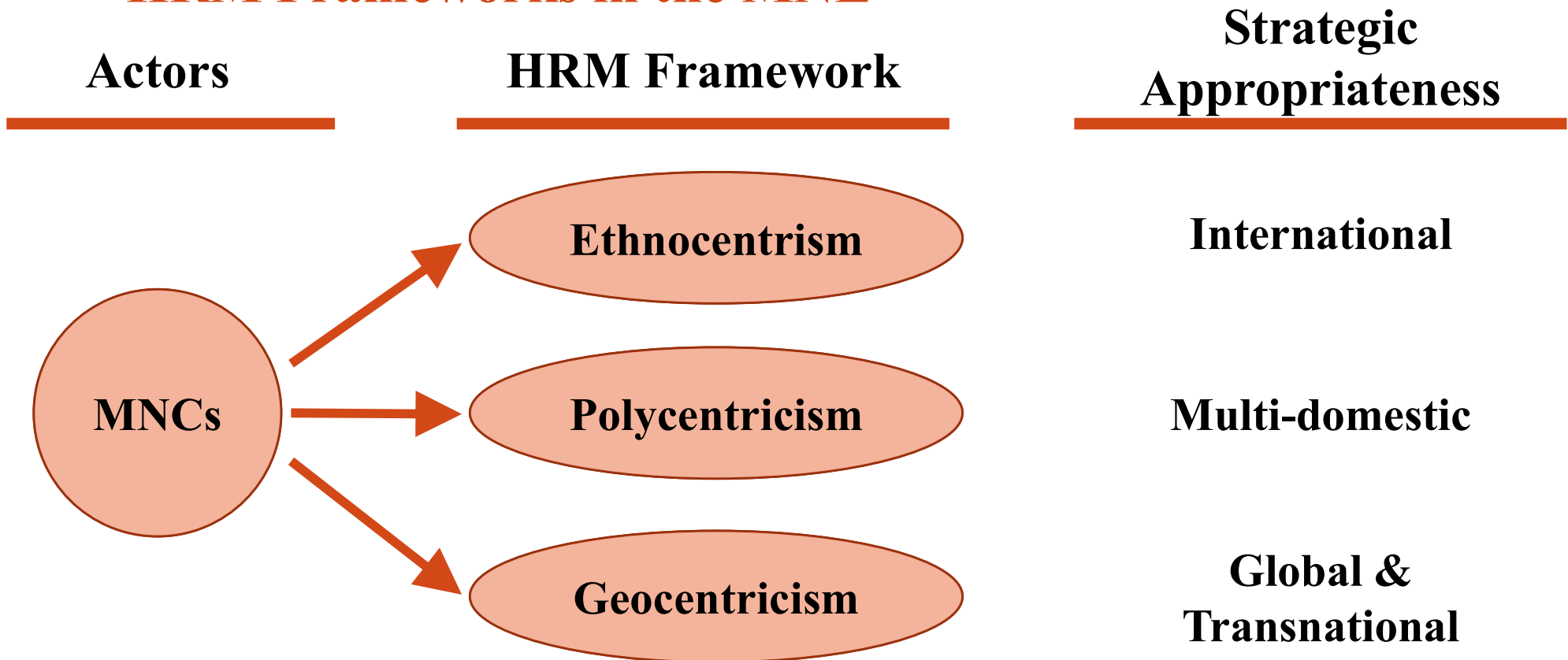
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The Strategic Function of International HRM



■ HRM Frameworks in the MNE



Source: Own illustration based on Daniels, Radebaugh & Sullivan (2010: 799-804).



■ HRM Frameworks in the MNC (*Ethnocentrism*)

❖ Definition/Assumptions

- An ethnocentric framework fills **key management positions with home-country nationals**.
- **HQs** makes **key decisions** & **subsidiaries** follow **commands**.

❖ Advantages/benefits

- Command & control
- Local talent gaps
- Local implementation
- High turnover among locals
- Management development

❖ Disadvantages/costs

- Cultural arrogance & illiteracy
- Local employees' resentment
- Unmotivated local managers
- Lost opportunities about different, possibly better, business methods



■ HRM Frameworks in the MNC (*Polycentrism*)

❖ Definition/Assumptions

- Companies use **host-country nationals** to manage local subsidiaries.
- The polycentric framework underscores the importance of adapting to **differences between the home & host countries**.

❖ Advantages/benefits

- Cost containment
- Less nationalism
- Employee morale
- Reduction in expatriate failure rate
- Product issues

❖ Disadvantages/costs

- Difficulties regarding accountability & allegiance
- Less incentive to engage an international perspective
- Potential for quasi-autonomous country operations



■ HRM Frameworks in the MNC (*Geocentrism*)

❖ Definition/Assumptions

- A geocentric framework seeks **the best people** for key jobs throughout the organization, regardless of nationality.
- **HQs & subsidiaries collaborate** to identify, transfer & diffuse best practices.

❖ Advantages/benefits

- Adaptation to different people in different countries
- Leveraging powerful ideas worldwide
- Exploiting learning opportunities

❖ Disadvantages/costs

- Tough to develop, costly to run
- Hard to maintain
- Contrary to many nations' market-development plans
- Difficulty in finding qualified expatriates



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■ The Roles of Expatriates

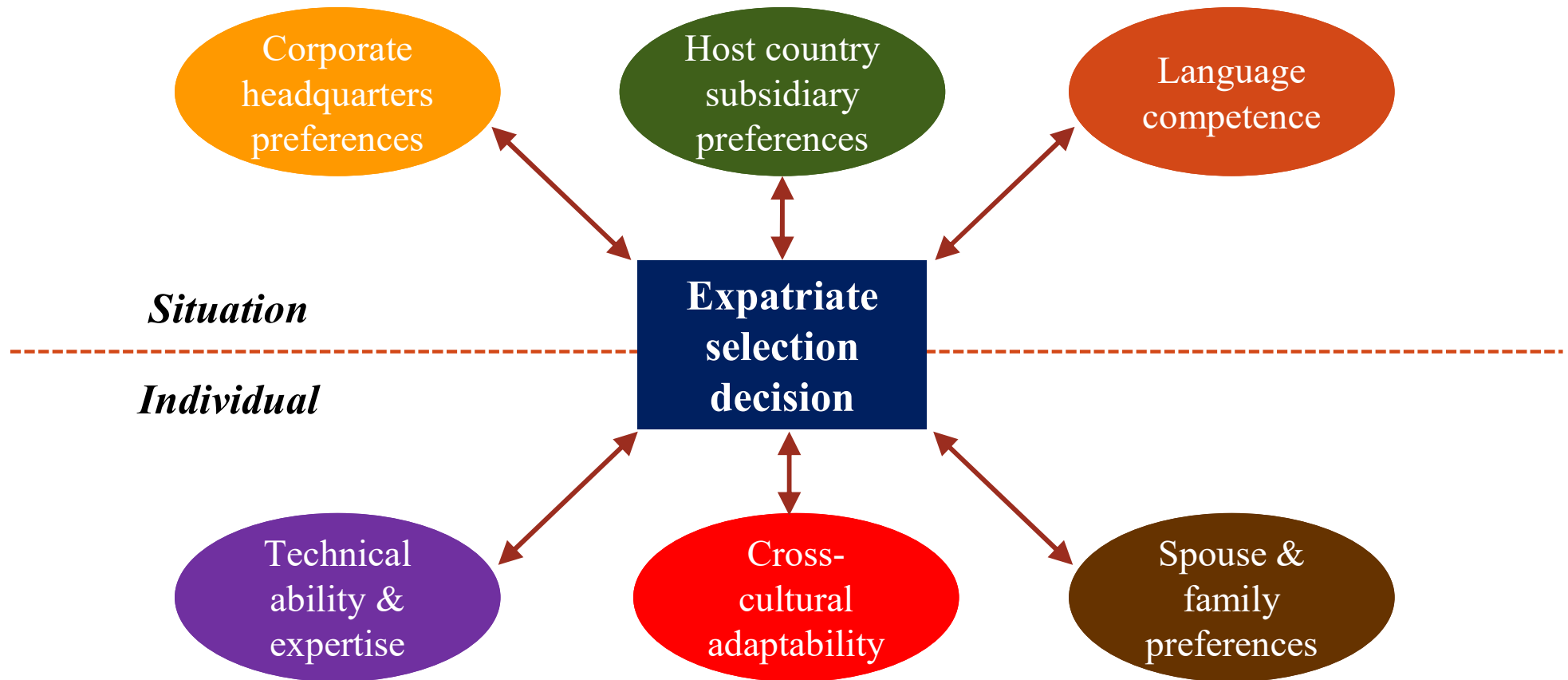


Source: Peng & Meyer (2011: 491).

Original source: Dowling et al. (2008) International Human Resource Management, 5th ed., London.



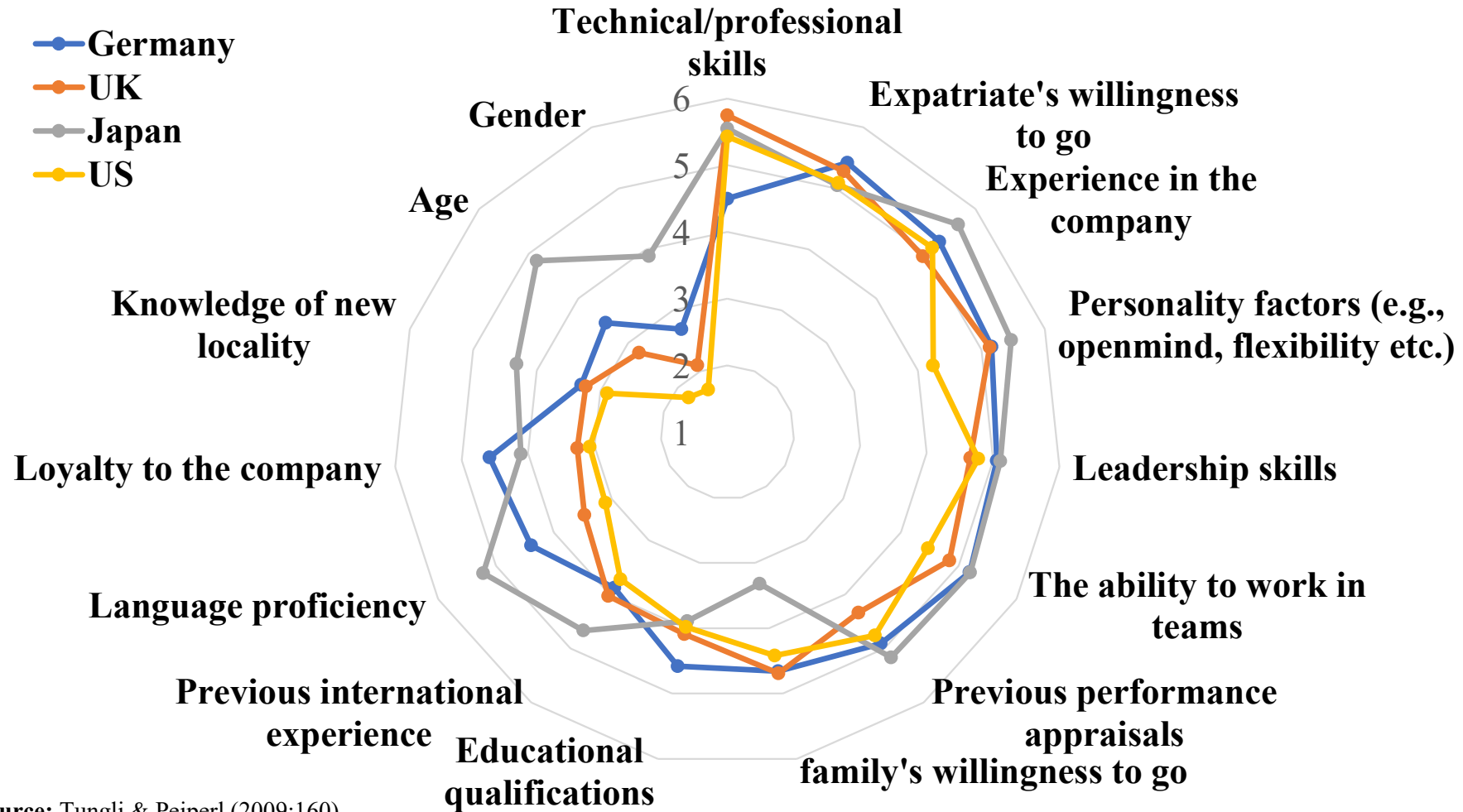
■ Factors in Expatriate Selection



Managing Expatriates



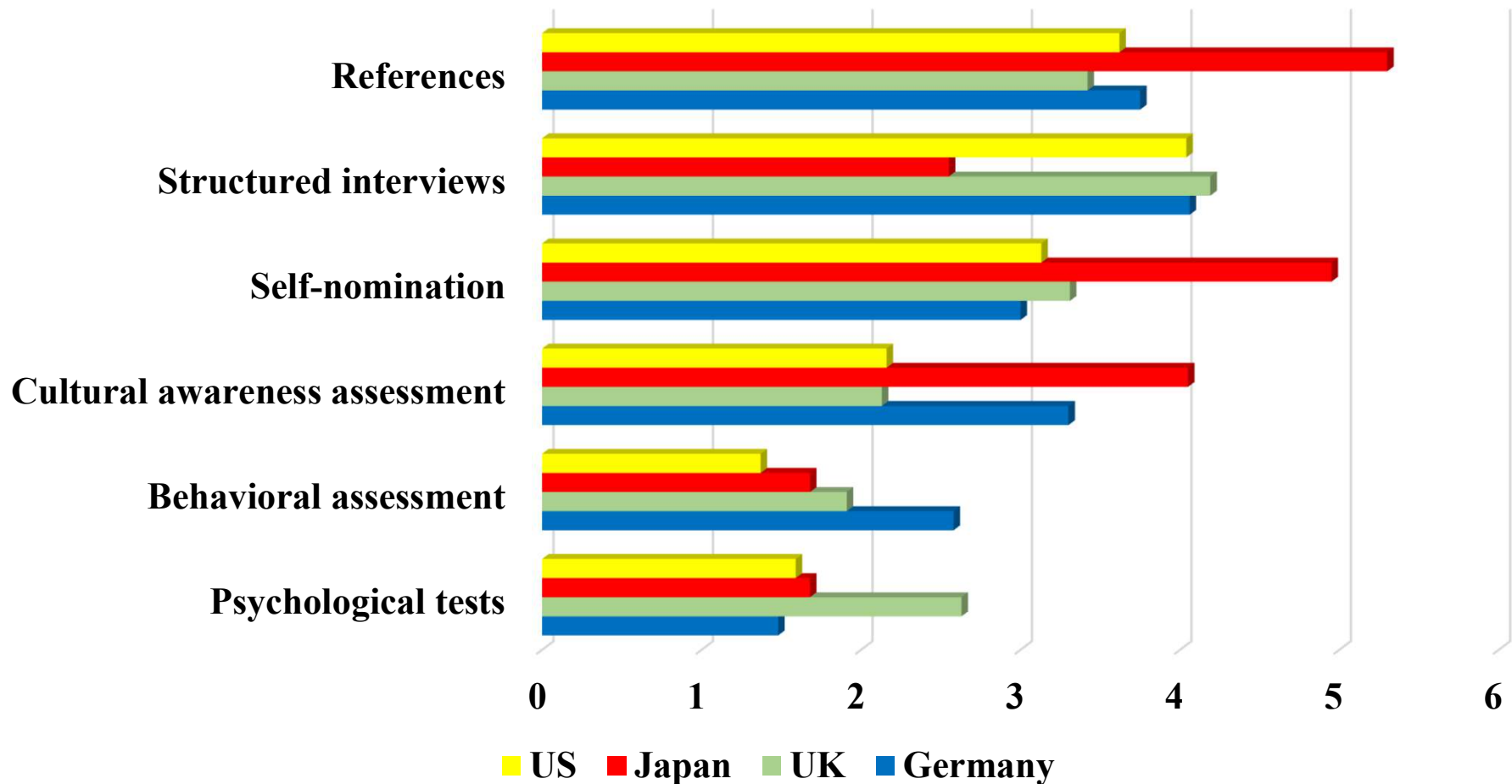
■ Selection Criteria for Expatriates



Source: Tungli & Peiperl (2009:160).



■ Regularity of Using the Following Selection Methods

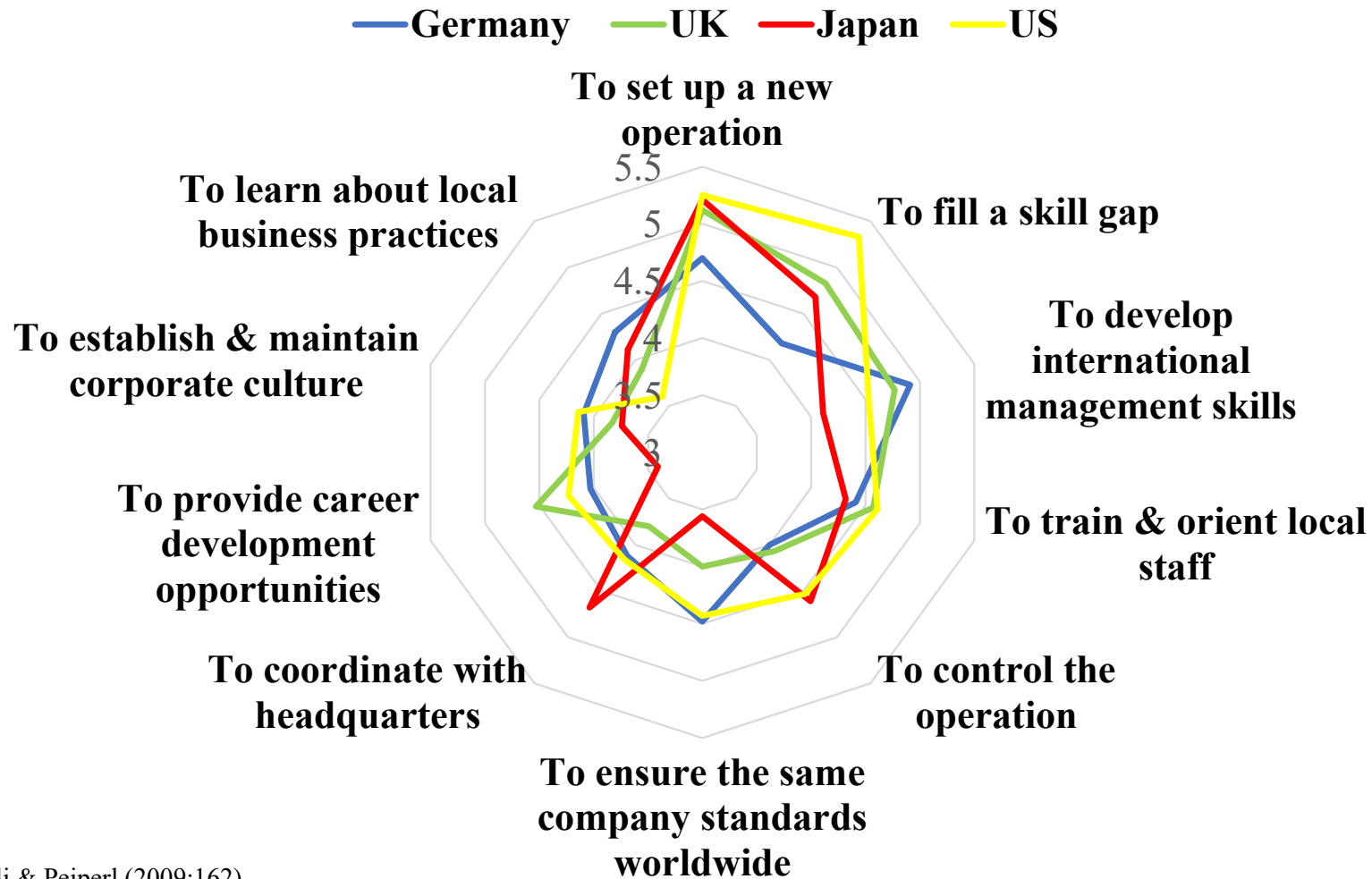


Source: Tungli & Peiperl (2009: 161).

Managing Expatriates



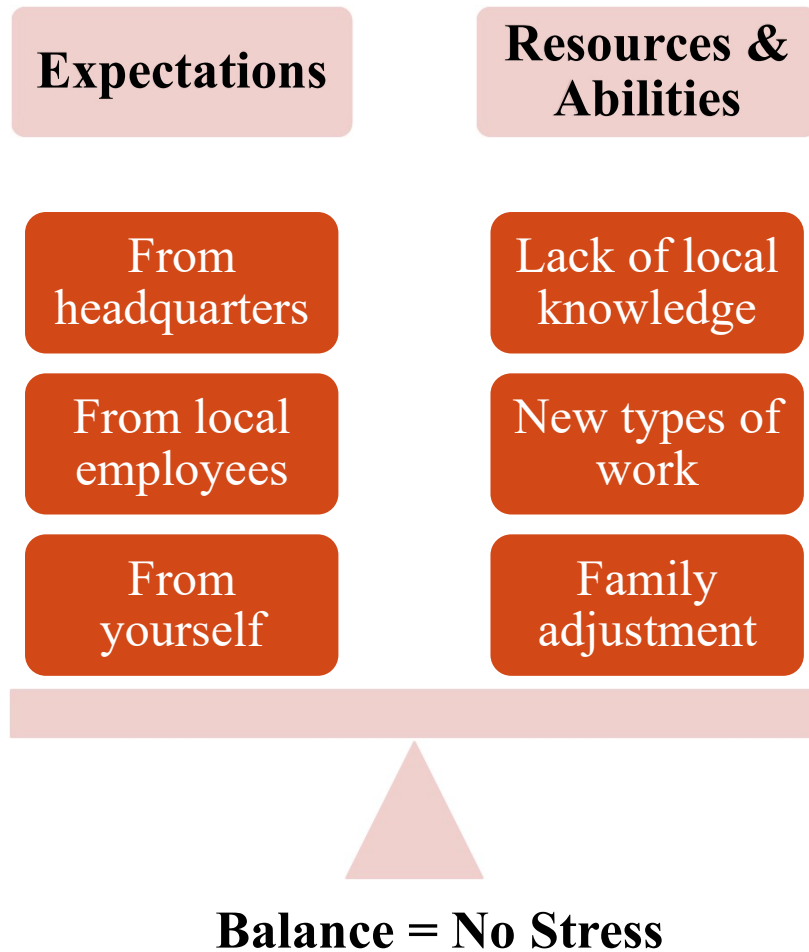
Reasons for Filling Managerial Positions with Expatriates



Source: Tungli & Peiperl (2009:162).



■ Sources of Stress for Expatriates

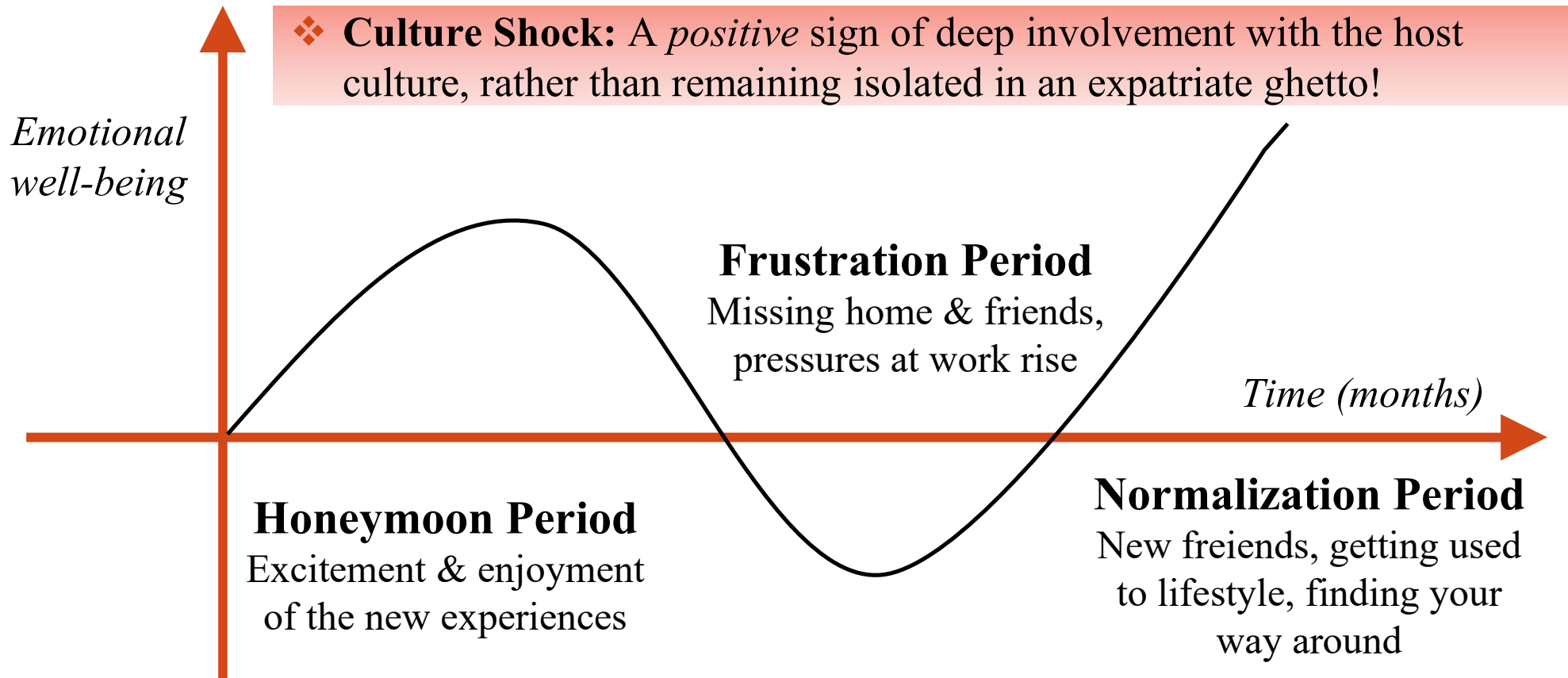


KEY COMMENTS

- > Many of the practical challenges or expatriates are similar to experiences of **students going abroad on exchange**.
- > Arriving at the place of an international assignment, the **initial concerns** are usually very **practical matters**:
 - Who does what?
 - Who is who?
- > **Our cognitive systems** of interpreting what is happening is grounded in **our culture**.
- > The **imbalance** between the effectiveness of your **action & your expectations** causes **expatriate stress**.



■ Culture Shock: From Honeymoon to Normalization



- ❖ **Solutions:** (1) Physical exercise, (2) meditation & relaxation techniques, (3) ‘stability zones’ such as groups in your own cultural community



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■ The Costs of Expatriate Failure (see next slide)

- ❖ The financial & personal costs of **expatriate failure** are high.
 - The average cost per failure can be as high as **3 times** the expatriate's annual domestic salary plus the cost of relocation.
 - The direct costs of each failure can reach **US\$ 1 million**.
 - A secondary cost is the **disruption of the family** (e.g., relationship destruction, stress creation)

■ Preventing Expatriate Failure

- ❖ Develop **preemptive training & preparation programs!**
- ❖ **Gauge** the ability of the expatriate's spouse & family to adjust to the foreign environment!
- ❖ Find ways to minimize the **risk of family disruption!**

Managing People Abroad



■ Compensating Expatriates in Japan? (*Exchange rates, as of 07.05.2012)

Direct Compensation Costs	\$	€	£
▶ Base salary	150,000	114,918	92,639
▶ Foreign-service premium	25,000	19,153	15,440
▶ Goods & services differential	120,000	91,934	74,111
▶ Housing	97,000	74,313	59,907
▶ U.S. (hypothetical) taxes	38,000	29,112	23,469
Company-Paid Costs			
▶ Education (schooling for two children)	30,000	22,984	18,528
▶ Japanese income taxes	115,000	88,103	71,023
▶ Transfer moving costs	47,000	36,007	29,027
▶ Miscellaneous costs (e.g., shipping & storage; cultural, practical, language training; preassignment orientation trip; destination assistance)	85,000	65,120	52,495
▶ Working-spouse allowance	75,000	57,459	46,319
▶ Annual home leave (e.g., airfare for four, hotel, and meals)	15,000	11,492	9,264
▶ Additional health insurance, pension supplements, evacuation coverage	20,000	15,322	12,352
Total	817,000	625,918	504,573



■ Does the Repatriation System Work?

+ Positive trends

25-33.3% believe their international experience boosted their **career trajectory**.

- Faster promotions
- Obtaining new positions

One in four expatriates who returns home is **promoted** in his or her first year of repatriation.

Negative trends —

80% felt their new job was a **demotion** from their foreign assignment.

More than **60%** felt they did **NOT** have opportunities to **transfer their international expertise to their new jobs**.

27% of expatriates **left the company** within one year of returning from their international assignments.



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■ Applying the VRIO Framework to HRM Practices

❖ Does a particular HR activity add **VALUE**?

- Administering payroll & benefits may not add value.
- Results from 397 studies find that, on average, **training adds value**.

❖ Are particular HR practices **RARE**?

- If every MNC in China provides training to HCNs, such training, which is valuable, will be taken for granted but *not* viewed as *rare*.

❖ How **IMITABLE** are HR practices?

- It is relatively easy to imitate *a single practice*, but it is much more difficult to imitate *a complex HR system (or architecture)*.

❖ Do HR practices assist **ORGANIZATIONAL CAPABILITIES** in improving firm performance?

- Teamwork & diversity → Promoting learning & employee creativity



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■ Global Leadership

❖ Definition?

- Individuals who are able to lead global organizations to achieve their desired organizational objectives regardless nationality, age, gender, & religious backgrounds etc.
- Those who have the capacity to respond to complex business environments & manage cross-cultural organizations effectively.

❖ What Skills are Required for Global Leadership?

- **Traits** (e.g., curiosity, diligence)
- **Cognition** (e.g., self-efficacy, passion, global mindsets)
- **Business know-hows** (e.g., practical knowledge, business sights)
- **Vision** (e.g., entrepreneurial orientation)
- **Social skills** (e.g., communication skills, networking skills)

Source: Oki (2017).

Conclusive Remarks



■ Managerial Relevance



> Develop the ability to adapt to local conditions !

- (1) **'Self-maintenance'** (personal resourcefulness: skills & qualities, cultural sensitivity, readiness to see the world)
- (2) **'Networks'** with host countries (e.g., flexibility, tolerance)
- (3) **'Sensitivity'** to host environments



> The '4' Cs for HR managers !

- (1) Be **curious**: Need to know formal & informal rules of the game governing HRM in all regions of operations;
- (2) Be **competent**: Develop organizational capabilities that drive business success;
- (3) Be **courageous** & (4) Be **caring**.



> Be proactive in managing your international career

- You can pick any country likely to be **an attractive place** to do business in five years time.
- Well-equipped with the **knowledge** now, making proper investments & manoeuvring yourself to be picked eventually.

Rickley & Karim (2011). “Examining How Firm-Specific Advantages Impact Foreign Subsidiary CEO Staffing”,
Journal of World Business, 53(5), 740-751.

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■ Questions

- ❖ **What is all about** in this article?
- ❖ What is **the major contribution** of this article to the literature?
- ❖ What about **liabilities of foreignness**? Where are they originated from?
- ❖ **Which industry** do the authors focus on? **Why**?
- ❖ According to **the institutional considerations**, why should MNC subsidiaries **appoint local CEOs rather than expatriate CEOs**?
- ❖ Discuss the underlying rationale **why** the positive relationship between the appointment of local CEOs & institutional distance **decreases** when (1) **MNC multinationality**, (2) **regional agglomeration**, & (3) **host country experience** increase.
- ❖ Draw **practical insights** from the study's empirical results?
- ❖ Discuss **the drawbacks inherent in this research**.



■ Research Questions

- ❖ Whether are **CEO staffing strategies** influenced by **institutional distance**?
- ❖ How do **firm-specific advantages** moderate the relationship between **institutional distance & CEO staffing strategies**? => Whether does (in more institutionally distant host countries) possession of firm-specific advantages **shift subsidiary CEO staffing strategies**?

■ Theory

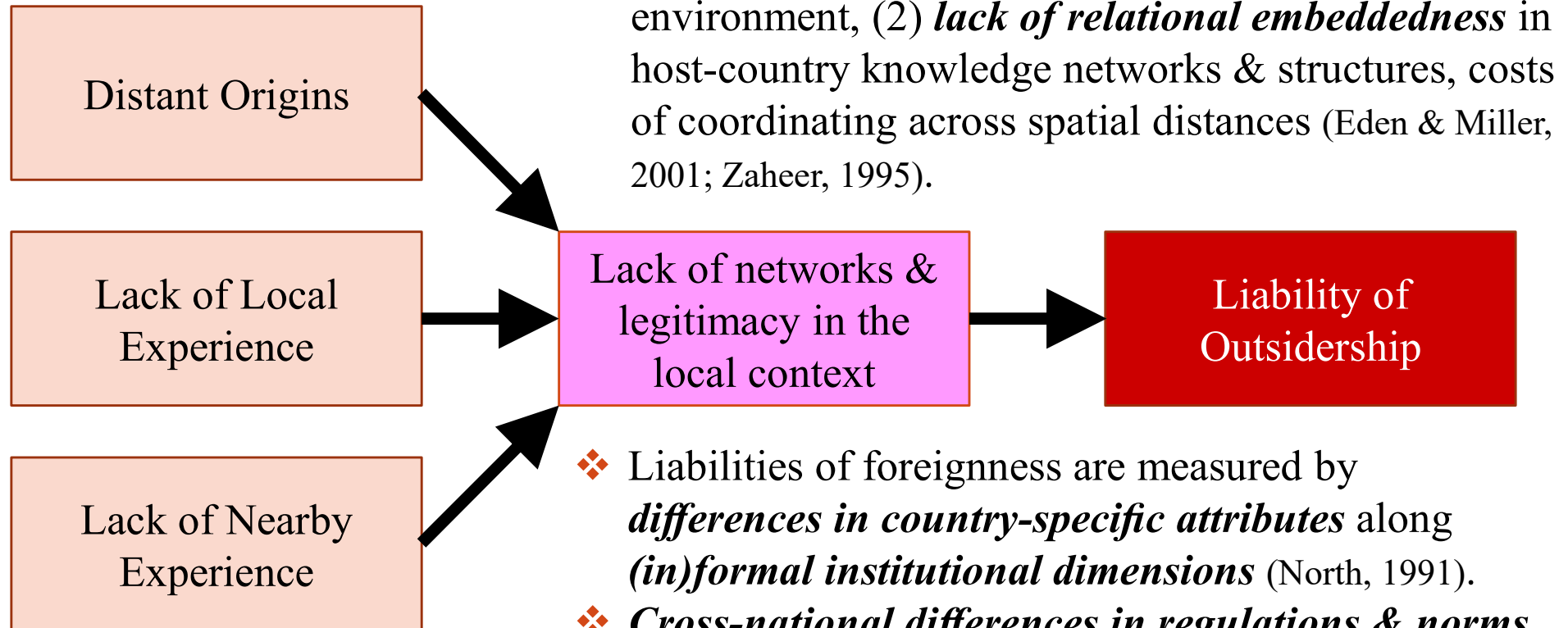
- ❖ A mix of **institutional theory & the resource-based considerations**.

■ Analytical Strategy

- ❖ A **quantitative** approach.
- ❖ **75 subsidiaries of 33 U.S. & European MNC banks in 12 CEE host countries** (between **2005–2010**).
- ❖ **Multi-level regressions**.



■ Liabilities of Foreignness



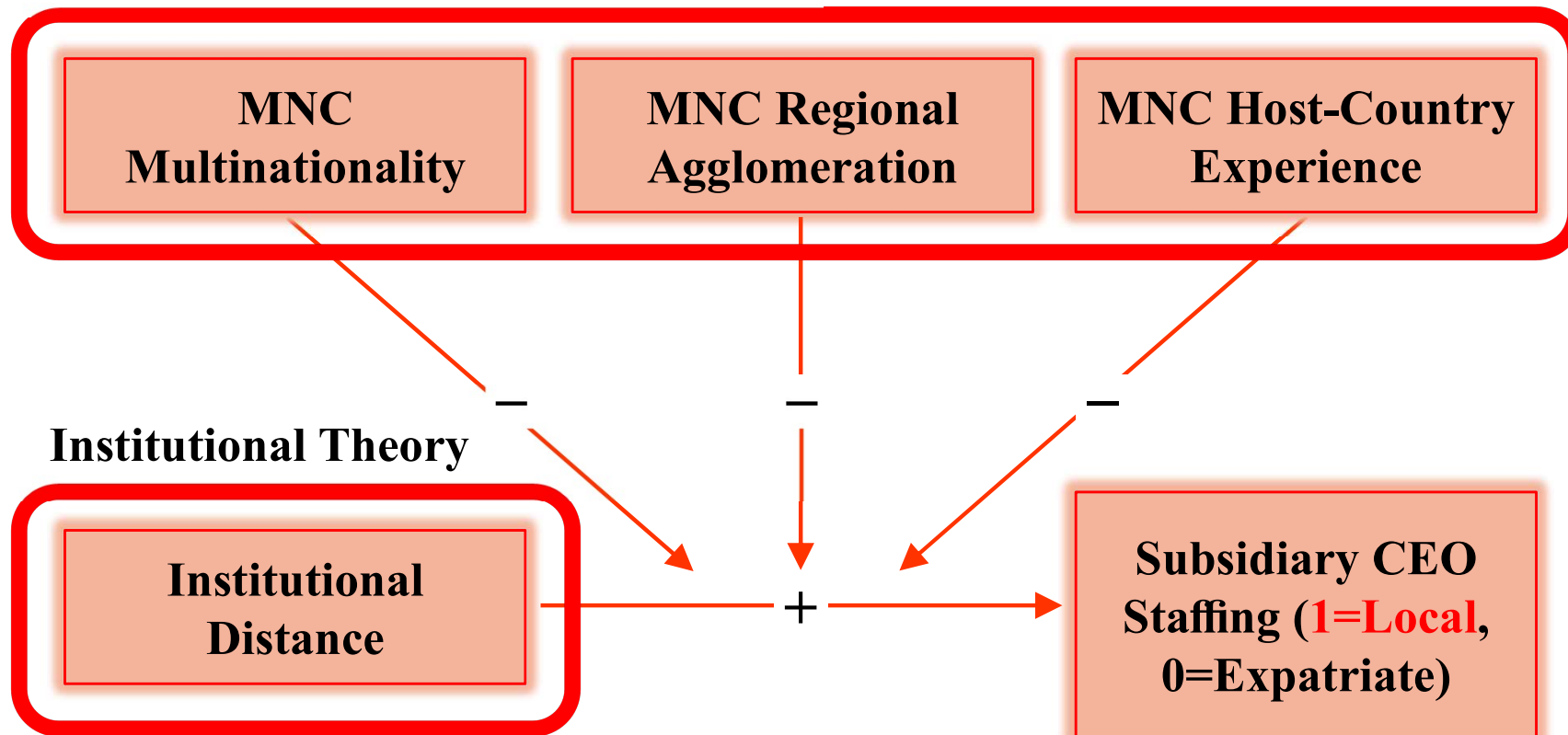
Source: Peng & Meyer (2011: 14).

CEO Staffing Strategy: Institutions & Resources



■ Conceptual Framework

Resource-Based View of the Firm



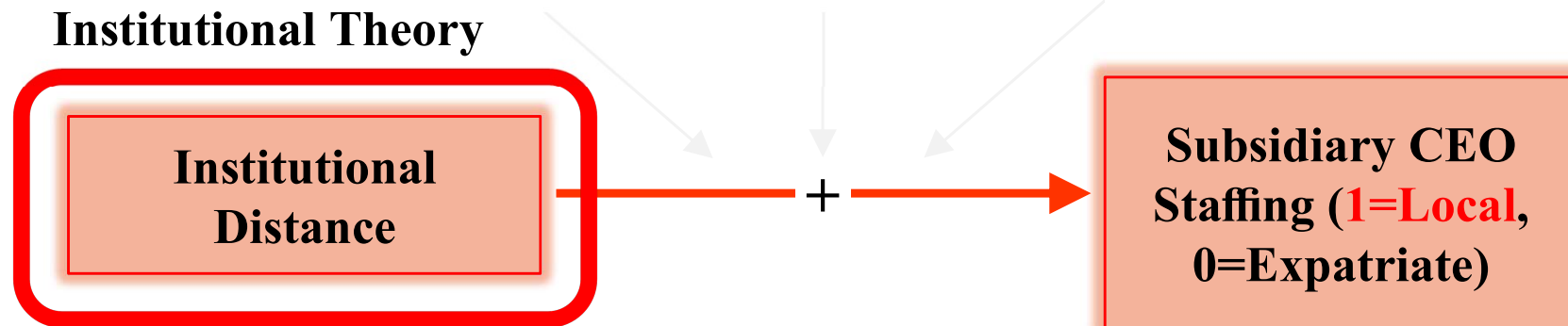
CEO Staffing Strategy: Institutions & Resources



■ Hypotheses

KEY POINTS

- ❖ An institutional theory-based solution for **alleviating liabilities of foreignness** is *the adoption of local isomorphism strategies* (Rosenzweig & Singh, 1991; Zaheer, 1995).
- ❖ Using *domestic firms' strategic behavior as a template*, foreign subsidiaries (1) *reduce risk of losses* due to **misalignment** between internal strategic choices & external market conditions & (2) *enhances their legitimacy* in the host-country market.
- ❖ MNC subsidiaries are likely to *utilize the local knowledge & network embeddedness of local CEOs* to a greater extent in more institutionally distant environments.



CEO Staffing Strategy: Institutions & Resources



■ Hypotheses

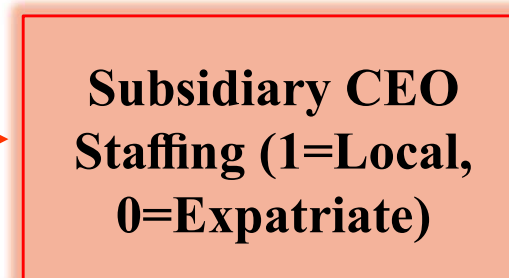
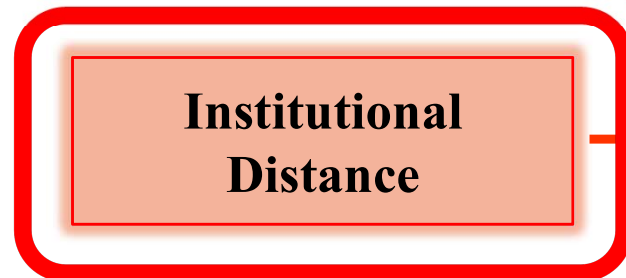
Resource-Based View of the Firm



KEY POINTS

- ❖ Benefits from their parents' previous **international experience**: (1) experience can help *avoid elementary mistakes in foreign market entry* (Barkema et al., 1996) & (2) subsidiaries belonging to a larger international network can *access a global resource base of diverse knowledge & capital* (Caves, 1982).

Institutional Theory



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CEO Staffing Strategy: Institutions & Resources

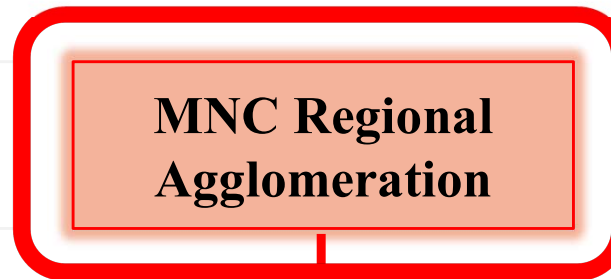


■ Hypotheses

Resource-Based View of the Firm

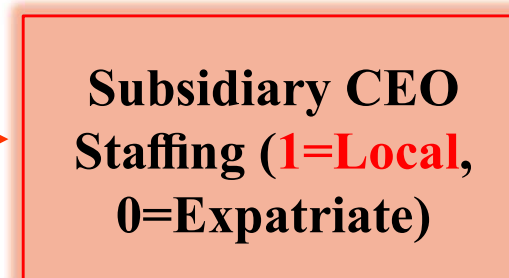
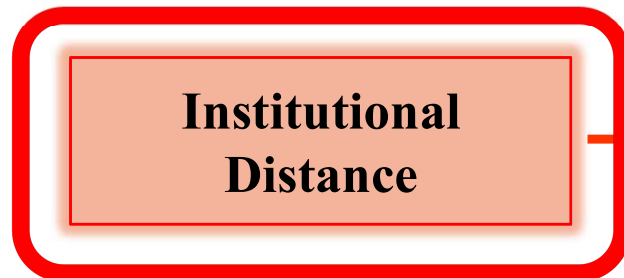
KEY POINTS

- ❖ Facilitates *intra-firm communication & knowledge transfer* (Buckley & Ghauri, 2004).



- ❖ *Expatriates as agents of informal coordination within the subsidiary network* (Edstrom & Galbraith, 1977; Harzing, 2002).

Institutional Theory



- ❖ Subsidiaries leverage *related experiences the MNC has earned in proximate locations*.

CEO Staffing Strategy: Institutions & Resources

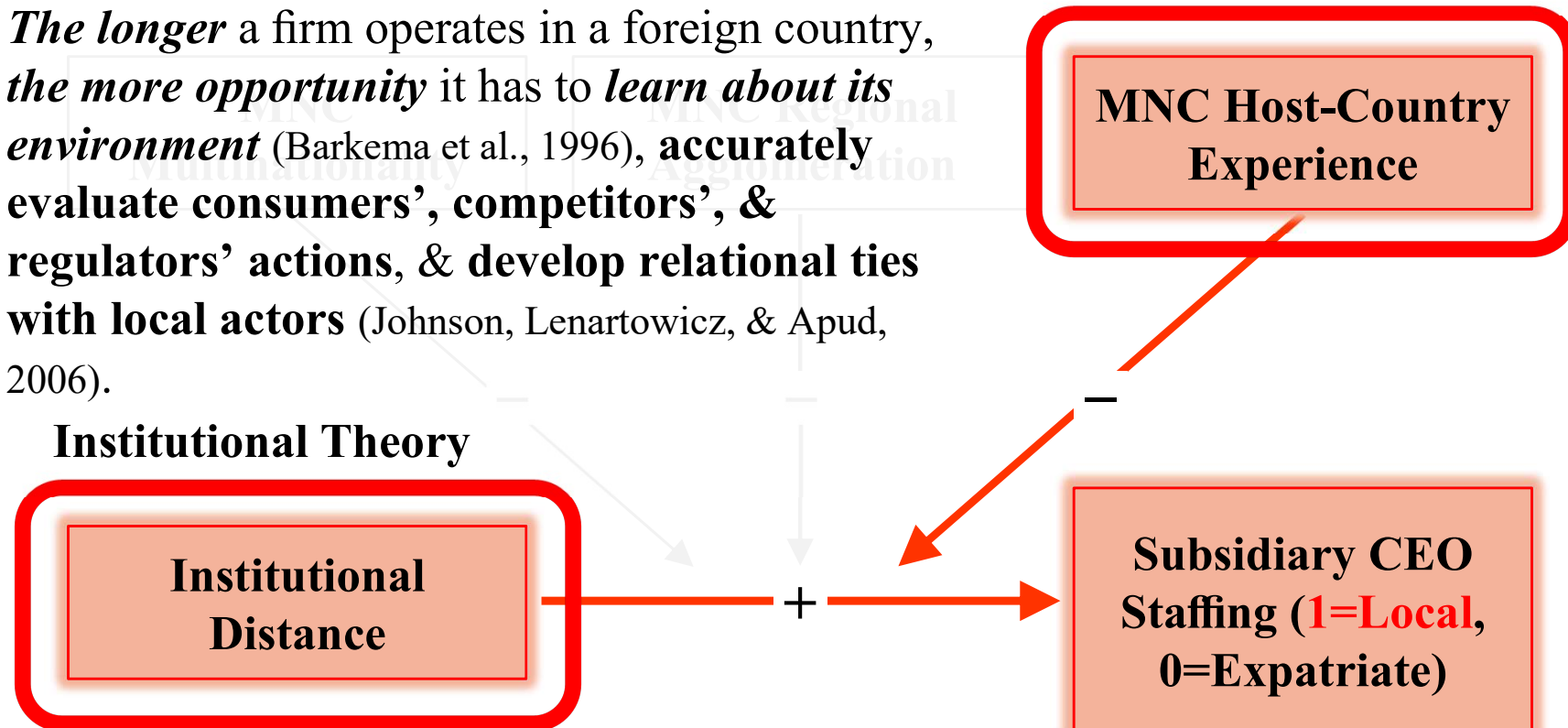


■ Hypotheses

KEY POINTS

- ❖ *The longer* a firm operates in a foreign country, *the more opportunity* it has to *learn about its environment* (Barkema et al., 1996), **accurately evaluate consumers', competitors', & regulators' actions, & develop relational ties with local actors** (Johnson, Lenartowicz, & Apud, 2006).

Resource-Based View of the Firm



- ❖ As MNCs accumulate experience in a host-country environment, *the need to rely on the local knowledge of local executives wanes* (Bartlett & Ghoshal, 1988).



■ Managerial Relevance

- ❖ As MNCs seek to configure their subsidiary TMTs to *fit the demands of multiple host-country environments*, they are *constrained by the availability of qualified talent* (Tung, 2016), particularly in *high-growth emerging markets such as Brazil, China, India, & Eastern Europe* (Collings et al., 2007).
- ❖ *How to allocate a limited recruitment pool across different institutional contexts?* => Allocation patterns of expatriate versus local CEOs across subsidiaries are '*not one-size-fits-all*'.
- ❖ Instead, they depend *on interaction between (i) institutional distance & (ii) organizational characteristics of the MNC*. While higher levels of institutional distance **alone** do **not** indicate a greater use of expatriates, expatriates are used more often by MNCs with firm-specific advantages in more institutionally distant environments.



■ Limitations & Suggestions for Future Research

- ❖ Focusing on a **single region & industry limits the generalizability** of our findings. Since this study was performed in the transitioning CEE host markets, it would be particularly valuable to have **comparison with Asian communist/transitioning economies**.
- ❖ The study covered **the period between 2005 & 2010**, which is **approximately 15 years following the fall of Communism in CEE**.
- ❖ The sample consisted of **MNCs from more developed countries operating in comparatively less developed countries**. => How about **emerging-market MNCs operating in developed markets**?
- ❖ Future research can extend our understanding of subsidiary staffing by also examining **the interaction between institutions & culture**.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Merci beaucoup !

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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