



MANAGING THE GLOBAL MANAGER: NEW RESEARCH DATA

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ABSTRACT

Expatriate employees, and particularly expatriate managers, are crucial members of all major multinational corporations (MNCs). They are expensive; their contribution is vital to their organisation and to the country in which they work. Data from two research projects provides new information on the way that expatriates are managed. The research found that: national representation and management control are two of the key reasons for the use of expatriates; the MNCs use a complex variety of selection procedures for expatriates but a central role is played by small numbers of headquarters personnel specialists who know the expatriates and potential expatriates personally; the key criteria for selection vary from those reported in the American literature; preparation for expatriates tends to be more extensive in Europe; failure rates for expatriates in European MNCs are much lower than those reported in the USA.

INTRODUCTION

There are no available statistics to indicate the number of expatriates around the world, but two opposing trends are apparent:

1. Larger MNCs are reducing the number of expatriates. They are finding increasing pressure for "localisation" from Government's abroad, a restriction of work permits and, in many cases, are reducing overall numbers employed anyway.
2. Many organisations are becoming newly or increasingly international and using more expatriates.

On balance it would appear that the number of expatriates throughout the world is expanding.

Whilst the numbers may be unclear the importance of this group is manifest. For the organisation they are extremely expensive people in crucial positions, and people who's experience becomes ever more vital at the centre; for both host country and home country they are economically important, and important for their ability to transfer technology and managerial learning; for the developing international economy they are a pre-requisite.

In these circumstances the lack of detailed knowledge of the way in which MNCs manage multinationals - and especially the way in which they select and prepare them for foreign assignments - is a problem. It raises the real danger that the MNCs with smaller numbers of expatriates will be forced to learn to manage this expensive and crucial group of employees by the wasteful process of trial and error. Fortunately research on this subject is being extended.

This paper explores four key aspects of the management of expatriate managers: the reasons why MNCs use them; their selection; their preparation; and, the issue of failure. Current knowledge on these issues is examined and details of the research methodology, the findings and a brief discussion are presented.

Literature on the management of expatriated is not extensive; research-based literature even less common. Much of the research is based on American MNCs. Despite the fact that this is a burgeoning area, as researchers respond to the increasing globalisation of business, many of the texts are now dated.

The reasons why MNCs use expatriates rather than locals have been the subject of much speculation and some limited research. Several reasons have been advanced: for staffing; for management development; for organisation development; and, in starting-up new ventures.

The selection of expatriates has been the focus of perhaps the most research. There is in fact very little discussion in the academic literature of MNC policies and systems for expatriate selection. There is a good concentration on the criteria used for selection. There have been several useful reviews of this literature⁽¹⁾, but the conclusion seems to be that there is still very little agreement on relevant criteria. Successive authors have tended to adapt previous categorisations of criteria, or to develop new ones, so that comparability between studies is limited.

Many of the American studies - and most of this literature is American - used the Business International list of 15 categories: experience, adaptability and flexibility, technical knowledge of the business, competence, ability and past performance, managerial talent, language skills, potential, interest in overseas work, appreciation of new management and sensitivity, proper education initiative and creativity, independence, good ability to communicate, maturity and emotional stability. It became clear, however, that this broad list of non-discrete categories was inadequate and although some researchers⁽²⁾ felt able to work with the list they found themselves forced to supplement it with other categories: family adaptability in Gonzales and Neghandi's case; family, age, sex, previous work overseas and respect for culture in Tung's. Other authors have noted other criteria not contained, at least explicitly, in these lists: sincerity and integrity⁽³⁾; interpersonal relations⁽⁴⁾; leadership skills, ability to command respect, general perceptiveness and grasp of problems and administrative skills⁽⁵⁾. Zeira and Banai include many of these other categories plus country of origin and "appearance (dress and looks)"⁽⁶⁾.

In general, more recent authors have tried to develop more discrete, wider categories. Rehfuss identifies five groups: "relational" or interpersonal abilities; "cultural empathy" including motivation, language, maturity "and an 'x' factor, operationally defined as the ability to live abroad"; technical skill; domestic performance; and spouse and family⁽⁷⁾. Torbiörn identifies eight criteria: adaptability, language, motivation, level of education, social manners, family adaptability, medical status and status of the job⁽⁸⁾. The most serious attempt to synthesise these lists of criteria comes from Mendenhall and Oddou. They see four categories: self-orientation - which includes reinforcement substitution, stress reduction and technical competence; others orientation - including relationship development, willingness to communicate and language; a perceptual dimension; and cultural toughness.

The point is made in some of these studies that the criteria for selection may vary by type of expatriate, by country and by position within the organisation. On this latter point studies have been made of the different emphasis in criteria between headquarters staff and the expatriates themselves and differences between these two groups and host county executives.

Few common themes emerge from this work. One is that a multiplicity of criteria is used in almost all cases, as might be expected. Another is that often these criteria are mediated by the speed required in the making of appointments, and by the MNCs failure to identify suitable candidates, so that persons are appointed to a foreign posting who do not meet the preferred requirements.

Preparation

There is a substantial literature, mainly from the USA, on preparation of expatriates for their foreign assignments. The clearest message to come through from this is that very little preparation takes place. Despite the importance of expatriate positions, the high costs associated with expatriation and the extensive and largely non-productive "running-in" periods, it is still the case that most organisations provide no formal training for expatriation.

Studies in the 1970s found that amongst US MNCs only two thirds provided any training at all and less than 25% provided any formal orientation training⁽⁹⁾. In the 1980s a study of the largest US MNCs found that "only 25 percent offer extensive pre-departure orientation training programs" and "less than half the respondent firms top management believe language facility is important and only 20 per cent of their firms require language for the overseas assignment"⁽¹⁰⁾. The expatriates themselves are significantly more enthusiastic about training programmes and languages. Other research however shows around 40% of American firms providing cultural orientation and two thirds providing language training^(see 2, Tung).

Evidence for European MNCs is rather sparser. There is some evidence that the Europeans did more training in the 1970s^(see 8) and do more now in the 1980s; more than half of Swedish companies provide formal training as did about half of a general survey of European corporations^(see 2, Tung). Both these last two studies found the Europeans providing significantly more language training.

Failure

The literature indicates a substantial failure rate for expatriate assignments. The definition of "failure" raises some problems, which will be discussed below. In general the literature refers to assignments where the expatriate had to be brought back home prematurely (ie before planned) as a result of problems experienced by themselves or their families, or by problems they have created for the organisation.

Much of the research has been conducted amongst American MNCs and reports alarmingly high failure rates. Henry⁽¹¹⁾ reported a figure of 30% and this was repeated in a study published five years later⁽¹²⁾. In most cases it is unclear where the figures originate. Attempts have been made to differentiate between countries, so that it has been stated, again without much evidence of the origin of the figures, that whilst most US assignments overseas have a failure rate of 30 - 50%, this figure rises to 70% amongst developing countries⁽¹³⁾.

Some studies with a stronger research base have found figures much worse than the usually-quoted one third. A study of the American construction industry found a 65% failure rate⁽¹⁴⁾ and a study of two US MNCs in Iran found failure rates of 50% and 85%⁽¹⁵⁾. However the most detailed study shows that the situation may not be quite that bad. Amongst a sample of 80 US MNCs 24% reported a less than 10% failure rate; 69% reported a 10-20% failure rate and only 7% reported a higher figure^(see 2, Tung).

In Tung's sample of European MNCs she reports 59% of companies having a failure rate of less than 5%, 38% having a failure rate of 6 - 10% and only 3% (one company) reporting between 11 and 15%. Other research based material is sparse apart from a surprising 40.2% premature return for Swedish expatriates found by Torbiörn^(see 8).

Nevertheless many MNCs were quick to point out that a definition of failure which relies upon the early return of an expatriate can seriously underestimate the problem. A senior manager or a key executive in a foreign country may be performing well below requirements. They may not be recalled: it is easy to make such under performance less obvious; equally superiors may well be aware of the lack of

performance but judge that the difficulties, the cost, and the "loss of face" involved in a recall outweigh the performance problem.

METHODOLOGY

The research has been aimed at extending our knowledge of the management of expatriates. In view of our current levels of understanding it was thought valuable to conduct new research which was focussed on European MNCs, because they had been subject to less study. It was also necessary to ensure that a significant proportion of the growing international service sector organisations were included as well as the manufacturing ones which had formed the core of most earlier research. The work was carried out through both survey and interview mechanisms in an attempt to gain both a wider view of developments and also an in-depth understanding of how a more limited sample managed this crucial group of employees. Finally, we wanted the research (which covered a number of other issues which space prevents us addressing in this paper) to examine some of the policy and procedure matters which were largely ignored in previous work.

Data was collected from the international personnel specialists at the headquarters of 25 MNCs. The object was to cover an example company from each of five sectors (airlines, banks, petroleum, electronics, and, food, drink and tobacco) in each of five countries (UK, Netherlands, Federal Republic of Germany, France and Sweden). This programme was completed with the exception of a petroleum company in Sweden and a food and drink company in the Federal Republic of Germany. Interviews with two extra MNCs in the bank sector in the UK brought the total number of organisations seen to 25. Most interviews (conducted in English and French) were in practice held with two or three specialists in each company and lasted between one and three hours.

A postal survey was also carried using the subscription list of the magazine "Multinational Employer". 53 responses from MNCs were received. The companies had headquarters in the UK, USA, Netherlands, Norway, Finland, Sweden, South Africa, Ireland, Italy, Hong Kong, Switzerland and Canada.

FINDINGS

Reasons for use of expatriates

The surveys reflected the literature on the reasons given by MNCs for their use of expatriates rather than locals. So staffing, management development, organisation development and start-ups were rationales advanced by most companies. Two other reasons, however, were also frequently advanced and seem to be particularly relevant at the top management level.

National representation. There was felt to be an expectation from foreign contacts, particularly customers and customer organisations, that the senior executives in the country would be HQ nationals. Their role was seen to include a substantial public relations and marketing element and it was felt that either Governmental or other local expectations required an expatriate. The 6 companies that did not feel this requirement were all amongst the largest organisations, with substantial foreign operations and were all in the petroleum and electronics sectors.

Control. For most companies the main rationale for using expatriate technical specialists was their work expertise. But for expatriate managers the main rationale was control of the local operation. This is emphasised by the fact that expatriates typically hold chief executive officer and senior financial management positions. Their function was to understand and interpret corporate policy and/or to be accountable for "bottom-line" financial results.

Discussion

The fact that these two issues were raised by this research but have been less clearly identified previously may have explanations. First, the research deliberately included the service sector, and national representation is a more important issue for them. Second, the concept of control in the management of human resource is becoming more acceptable in the European context. Third, methodological differences, unprompted questions followed by a detailed discussion, may have revealed a factor not raised in other approaches.

Selection systems

The systems for expatriate selection have not been the subject of previous research. It is worth making the point that in both studies the vast majority of expatriates are 'selected' rather than 'recruited'. Some of the smaller MNCs who were branching into, or expanding, their operation in other countries would "buy in" expertise and occasionally one of the larger MNCs would feel forced to recruit externally. In general however, most expatriates and nearly all expatriate managers are selected from current staff.

Amongst other relevant factors, it was found that:-

1. *Line and staff responsibility* is divided. Line management responsibility is a principle upheld by most organisations but applied very differently in practice. Nearly all organisations have one, or a few, personnel specialists whose prime function is the selection and management of expatriate staff. In the service sectors - banking and airlines - the role played by these specialists is in general pre-eminent. Although in many cases their role is formally to make recommendations to senior line managers, in fact they expect their recommendations to be actioned. In most of the manufacturing companies the personnel specialist plays a more limited role: often being expected to do no more than provide a list of potential candidates. Amongst the different countries the line management plays a more significant role in France and Germany than in the other countries.

At the same time, for most organisations a key role is played by one or a small group of international personnel specialists at headquarters. It is their task to "know" present and potential expatriates as individuals. This includes much more than their career history and work situation. It involves close knowledge of their personality, style, likes and dislikes, hobbies and pastimes. It extends to knowledge of, and often acquaintanceship with, their family and friends. This aspect of the selection system moderates all others.

2. *Computerisation* of the manpower planning system is, as one would expect in such companies, often highly advanced. This is particularly so amongst the companies in the electronics sector. More remarkable is the fact that some of these major MNCs had systems which were either largely uncomputerised or where computerisation plays a very limited role. The banking and food and drink sectors made much less use of computerisation. Even amongst those companies outside the electronics sector which had more extensive computerisation, a strictly limited use is made of the systems' potential. Dutch and German MNCs are more likely to rely on computer material to aid or direct their selection.
3. *Selection interviews* are used by all the MNCs. The form differs. In some cases these are rather formal panel interviews where a number of candidates were competing for posts. This occurs rarely, however. In the majority of cases the selection decision has in effect been reached prior to the interview. The interview itself, which usually is conducted by a personnel specialist with or without a line manager present, then takes the form of a negotiation about whether the posting

will be offered and accepted and what terms will apply. *Interviewing the spouse* is rare, though it should be said that, via the personnel specialist, many of the MNCs have a very detailed knowledge of the whole family.

4. *Formal testing* for expatriates is also very limited in the MNCs covered in this study. Even amongst those organisations which use such testing senior management views or straightforward operational necessity may lead to the test results being ignored. Only one of the companies in the postal survey reported a specific cultural awareness or adaptability test - some are very sceptical of the validity of such an instrument. Instead they attempt to draw conclusions from general psychological tests; for example, those taken on promotion into management.

Discussion

The picture that emerges is one of some incoherence. Many of the giant sophisticated companies are uncertain about the appropriate system for selecting their expatriate managers. Many of them rely on a single, or a few, specialists to hold all relevant knowledge in their heads and few of them use any of the more modern selection techniques. There are clear dangers here, not just in making the wrong selection decision, but also of perpetuating current views and prejudices.

Criteria for selection

The two studies reported here showed some differences in the criteria identified. Like nearly all other studies technical expertise, experience and track record was shown to be the most commonly used criterion.

Otherwise the order differed, with family support/marital status and language showing up strongly in the interview study, and knowledge of company systems, expressed interest and education being high in the postal survey.

Discussion

The results are to a degree influenced by methodology: the postal survey was forced-choice whereas the interview study used open, unprompted questions. It is likely, however that the differences between these results and previous research reflect a different orientation by European MNCs - the responsible managers in these companies may have a more positive attitude towards family support and language skills than managers in American MNCs.

There may also be a time factor - the family and language issues have been raised increasingly in the United States and it is at least possible that more recent research amongst American MNCs would show pattern closer to the findings presented in this paper.

Preparation

In the interview survey various types of training were explored. In fact 40% of these European MNCs stated that they provided formal training courses, and nearly all claimed to provide some kind of preparation. This has to be set against the fact that the time between decision and posting is typically very limited: eight weeks or less for about half of them and rarely more than three months.

Discussion

As would be expected, those companies that provide preparation for expatriates are supportive of its value, those that do not are more sceptical. There is however much

less confidence apparent in this area than there is in connection with the selection of expatriates. Three different groups are reviewing their arrangements for preparation.

First, the companies that are newer in to the expatriate field and have introduced or expanded foreign operations recently are in general enthusiastic about improving their preparation arrangements. Many of these companies have little knowledge to draw upon, either in terms of what is necessary or what is available. They may be in danger of committing substantial resources ineffectively.

Second, MNCs which have traditionally used particular forms of preparation are reviewing their provision to ensure that it is right. Two broad developments appear to be taking place. One is a move away from formal, general, external courses towards more responsive, tailor-made preparation which may or may not include actual courses. The other is a move towards covering different topics and focusing rather more rigourously on cultural adaptation and the problems that might be encountered in the working environment as opposed to the general social environment.

Third, some of the MNCs are reviewing their preparation for expatriation because they are moving into new countries or new situations. Thus a European company which has hitherto only operated in the USA outside Europe may need to adapt its preparation methods when it starts operating in the Middle East. And vice versa. Equally, undertaking a lobbying representative role in a third world country is quite different from an appointment in Brussels to deal with the European Community.

In terms of the more formal training five objectives are being pursued:

- training provision has to be more responsive. The time gap between decision and transfer is often short. Formal, lengthy and elaborate courses, booked well in advance, are simply not feasible in such circumstances. Therefore companies were looking for a capability to arrange brief but effective programmes at short notice.
- training provision has to be relevant. Courses covering whole areas of the world or a wide range of industries are less useful. What is needed are programmes which compare home base with host country and preferably are industry specific.
- training provision has to be work-related. Much of the current provision is about living in a foreign country (obviously useful) but tends to ignore or gloss over the actual practice of working in the country. 'What you will find when you get into the office' is missing from much of the training presently available.
- training for living in the country has to include members of the expatriate's family.
- ideal training provision might be carried out "home and away". This would involve a short course prior to leaving home base followed up by a more detailed programme once the expatriate had been on the foreign assignment for a few weeks.

Failure

This research found low rates of recall to home base. The MNCs were asked for actual numbers over the previous five years, and these were then translated into percentages by a later comparison with numbers of expatriates. In many cases the executives interviewed were able to recall the particular individuals involved: indicating the very small numbers concerned.

There are some significant national differences. 3 of the 6 companies with the highest failure rates were French. All Swedish companies had failure rates of less than 3%. (A marked contrast with Torbiörn's findings). In terms of industrial sector the oil companies have fewer failures (all below 3%). The airlines and the electronics

companies are split, with, in each case, 3 companies with failure rates below 3% and 2 with more than 5% of failures.

It was not found possible to quantify the "non-return" aspect of "failure". Some of the MNCs claimed that their selection procedures and performance appraisal systems would prevent this from ever happening. Others were prepared to admit that it happened: but unable to quantify the extent of the problem. Some of the specialists spoken to pointed out that most organisations have as yet found no clear way to quantify or to manage poor performance amongst their headquarters staff operating in a known and familiar environment: in which case it is unsurprising that they find the problem of expatriate under performance a complex and difficult one. With few exceptions respondents were prepared to make "well-informed estimates": in all cases these were that under performance was a more frequent problem than failure of the kind that required repatriation. There was a general impression that it might be "two or three times" as common.

Discussion

These findings raise questions about previous estimates of failure rates: related in particular to the fact that the figures are so much lower than previous estimates. There are three straightforward explanations: it is likely that each has some effect on the figures being so different.

1. Failure rates have declined over time. This is likely because MNCs do learn from experience. They will get better at their management of expatriates. In particular better preparation will reduce failure rates.
2. Different industries and nationalities will have different failure rates. By focussing on European MNCs within particular industrial sectors this study has isolated a group of MNCs which have lower rates than, for example US construction industry companies. Again this argument seems on the face of it to have some validity.
3. Methodological differences will account for some of the difference. Previous reports which have used either researchers or respondents estimates of percentages are likely to be much less exact than this study which compared raw numbers of failures with raw numbers of expatriates.

Of course, even a single failure, in the sense of an urgent requirement to repatriate, can be traumatic: and not just for the expatriate and the expatriate's family. The high costs associated with the failed expatriate, their replacement, and the management time and resources devoted to the change can pale into insignificance compared to the damage that the MNC can suffer as the failure becomes apparent to host country staff, customers and often Governments.

CONCLUSION

The research is no more than indicative, as is to be expected in such a largely under-researched area. We live in an increasingly international world, with increasing numbers of organisations and managers becoming "international". If tentative conclusions can be drawn from the programme of research so far, it is that MNCs are far from clear that they have resolved the issues relating to the management of the highly expensive, and crucial, "global manager". Our research found that the corporations are relatively sanguine about the mix of techniques they used to select their expatriates, but much less certain that they are preparing them for foreign postings in an effective way. More research will lead to greater understanding, and to improved performance from these vital, international, people.

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