

## CHAPTER 2

### LITERATURE REVIEW

The era of globalization has reinstated the importance of the human resources management (HRM) in playing a significant role to help business organizations to achieve a global core competency. Given the importance, there have been voluminous studies and researches that being done in the area of international human resource management (IHRM). Those studies were conducted mainly to understand the human resource practices in an international context and how it can affect the organizations.

Despite the subject has attracted a lot of interest for the past few years, there is still much room for better understanding of successful HRM practices in an international context (Mendenhall and Oddou, 1991; Dowling et. al., 1994). One of the most common and important parts of IHRM literature relates to expatriation (Suutari and Brewster, 2001). There have been a lot of studies done in the area, which include the recruitment and selection criteria (Lanier, 1979; Tung, 1981, 1982; Zeira and Banai, 1984), the adjustment issues (Black and Stephen, 1989; Black et. al., 1991; Brewster, 1993; Suutari and Brewster, 1998), Training (Tung, 1982; Black and Mendenhall, 1990; Brewster, 1991; Suutari and Brewster, 1998) and Repatriation (Harvey, 1989; Grehersen, 1995; Pickard and Brewster, 1995) among others.

The area of expatriation is very crucial, especially for all the organizations that operate internationally. The successful implementation of international and global strategies depends on getting the right people with the right skills, at right time, which typically requires the movement of people across the border (Adler and Bartholomew, 1992; Porter, 1990). Since organizations with international business operations need a work force that is available for international assignments, international firms regard it as a strategic

imperative to try to develop internationally mobile expatriates, especially expatriate managers (Downes and Thomas, 1997; Shackleton and Newell, 1997; Selmer, 1999)

The studies on expatriation also have highlighted the significant impact it has to organizations. The practice of expatriation is very costly for any organizations that implement it. For a start, it has been reported that this group of employee represent a major investment for multinational corporations (MNCs). According to a study by Wederspahn (1992), the estimation of the first-year costs of sending expatriates on foreign assignment are at least three times the base salaries of their domestic counterparts. The figure is considered well spent if the assignments succeed. However, in the case of failures the lost will be staggering. And subsequently those failures will affect both expatriates and the organizations. It will be much worst, if the reputation of the organization is at stake (Zeira and Banai, 1984).

Considering the importance of the issue, obviously the recruitment and the selection of expatriates for any foreign assignments must be done carefully by identifying the best person with all the traits and skills needed for them to succeed.

This chapter will detail out the previous literature that relates to the study. The sequential of the chapter presentation will be as follows:

- 2.1 Definition of Expatriate and its roles
- 2.2 Staffing policies of expatriate
- 2.3 Expatriate's traits and competencies
- 2.4 Malaysian context

## 2.1 Definition Of Expatriate And Its Role

Expatriate as defined by Mondy et. al (1999) is an employee working in a firm who is not a citizen of the country in which the firm is located but is a citizen of the country in which the organization is headquartered.

Most of these expatriates are generally employed in managerial, technical and professional capacities. In accordance to researches on international staffing, number of principal reasons for employing headquarter (HQ) expatriates in MNCs have been identified. The reasons are as follows;

- i. Lack of availability of management and technical skills in some countries
- ii. With an objective to have control of local operations
- iii. To facilitate entry into new market
- iv. To develop international management competencies

(Brewster, 1991; Torbiorn, 1994)

Nevertheless, the practices of expatriate have seen some changes in the recent years. The trend of globalization and the existence of transnational companies like Royal Dutch Shell have introduced the practice of 'transpatriates'. Transpatriates mostly consist of third-country national (TCN)<sup>1</sup>. TCN is a citizen of one country, working in a second country, and employed by an organization headquartered in a third country. The rationale behind it is to employ the best staff regardless of their nationality and to create a global managers and employee. It also create greater chances of work force in countries that do not have MNCs to be expatriates.

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<sup>1</sup> Mondy, R. Wayne, Noe, M. Robert and Premeaux, Shane R. (1999). *Human Resource Management*. 7<sup>th</sup> Edition. New Jersey: Prentice Hall.

According to Adler and Bartholomew (1992);

*' Transpatriates from all parts of the world are sent to all other part of the world to develop their worldwide perspective and cross-cultural skills, as well as developing the organization's cadre of globally sophisticated workforce.'*

This is the future of IHRM as the international labour market will be more and more mobile in line with the globalization process. As Punnet (1997) put it;

*'Global mobility is a reality and necessity in today's international business environments'*

## **2.2 Staffing Policies For Expatriate**

Staffing policy is concerned with the selection of employee for particular job<sup>2</sup>. It involves selecting individuals who have the skills required to do particular jobs. In international context of HRM, staffing policy is deemed very significant. Those companies that operating transnational and globally will pay significant attention to selecting individuals who not only have the skills required to perform a particular jobsbut who also 'fit' the prevailing culture of the firm (Hill, 2001)

Researches have identified four types of staffing policies in international business<sup>3</sup>; the ethnocentric approach, the polycentric approach, the geocentric approach and regiocentric approach.

<sup>2</sup> Hill, Charles W. L. (2001). *International Business*. 3<sup>rd</sup> Edition. Irwin McGraw-Hill

<sup>3</sup> Deresky, H. (1994). *International Management: Managing Across Borders and Culture*, HarperCollins College Publisher, NY

### 2.2.1 The Ethnocentric approach

This staffing policy will require all the key management positions are filled by parent-country nationals (PCNs). This is due to a few reasons, among others, the firm believe the host country lack qualified individuals to fill senior management position and the firm trying to maintain corporate culture. (Hill, 2001)

### 2.2.2 The Polycentric Approach

The policy requires host-country nationals to be recruited to manage subsidiaries, while the parent-country nationals occupy key positions at corporate headquarter.

### 2.2.3 The Geocentric Approach

This is a policy that seeks the best people for the key jobs throughout the organization, regardless of nationality. It aims to make the best use of its human resource. In addition to that, this policy enables the firm to build a cadre of international executives who feel at home working in a number of cultures.

### 2.2.4 The Regiocentric Approach

This approach is implemented by recruiting on a regional basis. It works toward cross-cultural integration within a region where similarities among a group of nations allows consolidation of marketing or production [Holt 1998].

## 2.3 Expatriate's Traits and Competencies

Various studies have been conducted to identify the right traits and competencies for expatriate to be successful in their assignment. The researches on this area usually relates to the selection and recruitment process of the expatriates, in which, criterion for the decision were identified.

Much of the early works on expatriation were concerned with this issue. This is because, scholars had identified that one of the main reasons put forward for a purported high failure rate among expatriate employees are the 'inadequate' selection criteria used by many MNCs (Adler, 1986; Black and Mendenhall, 1990; Dumaine, 1995)

The identification of the right candidate is very crucial, particularly in avoiding the failure, as expatriation practice can be risky to the organizations. This is due to:

- i. Expatriation is a costly practice
- ii. Adaptation to any new task or job in a new environment is a difficult task, and not everyone is successful at that (Selmer, 1999)
- iii. Human and financial costs of failure in international business arena are considerably more severe than in domestic business (Dowling and Schuler, 1990; Forster, 1997)
- iv. Many companies have underestimate the complex nature of HRM problems involved in international operations and that business failures in the international arena may often linked to poor management of expatriates (Tung, 1984; Brewster and Scullion, 1997)

(Suutari and Brewster, 2001)

Given of the importance for having to know the right traits and skills in selecting the most suitable candidate for overseas assignment, a lot of researches have been done on the issue. According to Jordan and Cartwright (1998), if anybody has read the literature on the characteristics of an expatriate, they cannot fail to be amused at the voluminous pages of competencies and personality characteristics required to ensure a successful performance.

Baliga and Baker (1985) has identified a few selection criteria that include the employee's technical skills, empathy managerial skills, sense of mission, political awareness, language skills, cultural sensitivity, ability to work with local nationals, good judgement, creativity, responsibility, alertness, initiative, self-confidence and willingness to change. Gertsen (1992), in a review of the literature on inter-cultural competence, found that researchers have put forward a whole range of different personality traits that the international employee 'should' possess in order to successfully complete a foreign assignment. These include empathy, openness, flexibility, tolerance, self-confidence, optimism, independence, good communication skills, initiative and intelligence.

In most of the literature discussing the characteristics of expatriate, the competencies always being combined with the personal attributes required in order to ensure the successful performance. As Heller (1980) puts it:

*...a flexible personality, with broad intellectual horizons, attitudinal values of cultural empathy, general friendliness, patience and prudence, impeccable educational and professional (or technical) credentials- all topped off with immaculate health, creative resourcefulness, and respect for peers. If the family is equally well endowed, all the better.*

According to Jordan and Cartwright (1998), for an expatriate to be successful, they are expected to have following personal attributes:

- i. Openness to Experience
- ii. Extroversion
- iii. Low anxiety/ neuroticism

### 2.3.1 Openness to Experience

It seems that this characteristic to be a constant recurring personality variable that is positively linked to successful performance in an international environment. The importance of this characteristic is to have the broadmindedness in accepting the differences between people so that ones can appreciate cultural and work environment differences. Borrmann (1968) described adaptability, cultural empathy and emotional stability as critical factor for success.

### 2.3.2 Extroversion

It refers to the tendency to experience positive emotions and moods and to feel good about oneself and the rest of the world. It is included in the big five personality traits. Extrovert managers usually tend to be sociable, affectionate, outgoing and friendly. Hence, they are most likely to be successful in managing in foreign countries. This is supported by the study on Canadian expatriates by Hawes and Kealey (1981) which showed that the overall single most consistent predictor of adjustment in expatriates was interpersonal skills. It is made up of, a respect for others, listening skills, relation building and sensitivity to the host country issues, a constellation that is indicative of participative warm-hearted usually associated with extroversion. Another reason why extroversion is important in foreign assignment is based on the finding by Mendenhall et. al. (1987) that proposed competencies for dealing with the relational aspect of expatriation include a "willingness to communicate", suggesting a social boldness typically found in extroverts.



### 2.3.3 Low Anxiety/ Neuroticism

Furnham (1990) has characterized expatriation by high level of stress as individuals move through the process of relocation and culture shock. Terminology given by Krug and John (1986) has outlined the composite personality profile that necessary for successful performance in high-risk and stressful occupations. According to them, the composite profile would represent a pattern of moderate extroversion, low anxiety, high tough poise and moderate independence;

*.....emotional stability may be considered as the ability to withstand and recover from "short, sharp shocks" and it may be viewed as the inverse neuroticism. A stable person is able to cope with distractions, is rarely lethargic and lacking in energy.*

Therefore it is very important for the future expatriates to have low (traits) anxiety in order for them to manage effectively.

Besides those traits, another two widely mentioned attributes are self-confidence and flexibility (Gertsen, 1992; Black, et. al., 1991). And out of those traits, extroversion, self confidence and openness to experience have been constantly ranked high in few studies (Hays, 1974; Sieveking et. al., 1981; Tung, 1981)

Apart from the personal attributes that have been discussed, the expatriates also are expected to have several competencies to ensure their successful performance. In the international environment it is difficult to specify competencies for each job, and for each geographical region of the globe,

makes it impossible not to rely on core competencies in the selection of the international managers. As with personality variables, the multitude of existing competencies are characterized by minor semantic differences of a much smaller number of core competencies that would deliver successful behavior in an international environment over and above those that would normally be included in organizationally specific selection decisions. In determining the competency criteria, Jordan and Cartwright (1998) has outlined four important competencies that expatriates should have:

- i. Relational abilities
- ii. Cultural sensitivity
- iii. Linguistic ability
- iv. Ability to handle stress

#### **2.3.4 Relational Abilities**

It refers to the one's ability to interact with host country nationals, managing first impressions, active listening and maintaining a positive regard for other circumstances that are outside one's own experience are considered crucial by practitioners. (Coyle and Shorthand, 1992). In expatriation, success can be defined as successful cultural adjustment that leads to personal growth as much as it can be defined as high performance at work. (Jordan and Cartwright, 1998)

#### **2.3.5 Cultural Sensitivity**

This is also another critical competence that needs to be seriously considered by the expatriates. Since the expatriate manager will be managing in an environment with totally different cultures (in most of the cases), their sensitivity and understanding of the culture is important for them to manage effectively. And according to Bochner (1981),

effective multi-cultural performance abroad is achieved by being able to switch effectively into whichever host culture one is in.

### **2.3.6 Linguistic Ability**

Linguistic ability is perhaps a competence that is automatically accepted as critical for success at least on an intuitive level. This linguistic ability is important in order to establish multicultural communicative competence. Even though English has been established as the language for international business, however, there is need for conversing in foreign language in order to understand better the culture of the non-English speaking trade partners.

### **2.3.7 Ability to Handle Stress**

Recent developments within the expatriate literature (Furnham, 1990) confirm earlier indications of the prevalence of stress both during pre-departure and during the transition period of acculturation. This overwhelming indication is that a worrying prevalence of stress outcomes result from working abroad, providing conclusive evidence for the inclusion of a further competence of the expatriate managers- an ability to handle stress. This is basically interrelated with the character of low anxiety and neuroticism.

The four competencies outlined above are basically the minimum criteria that should be included in assessing for suitable candidates to go for international assignment. Obviously, there are other competencies that can influence whether the expatriate will be successful or not in their assignments. And one of the most prominent ones that consistently appeared in findings of many researches was the work competency. These work competency elements

include the technical skill, management skill and learning skill (Tung, 1981, 1982; Zeira and Banai, 1984, 1985).

From those early researches on identifying the criteria for selection decision, work competence has been consistent finding as the most important criteria in selecting expatriates (Howard, 1974; Lanier, 1979; Tung, 1981, 1982; Zeira and Banai, 1984, 1985). Nevertheless the work related competence alone would not ensure success, since applying those skills in a new environments and different cultural environments is not problem free (Suutari and Brewster, 1998). The differences of surrounding in a new place do require some adjustment and adaptation. To overcome the problem, some scholars (Black, 1988; Janssens, 1992) have listed out different dimensions of adjustment needed for expatriates to be successful. The five categories of attributes that related to successful adjustment are:

- i. Job factor
- ii. Relational dimensions
- iii. Motivational state
- iv. Family situation
- v. Language skills
- vi. Cultural adjustment.

From those attributes that relate to successful adjustment as being listed out, apart from the family factor, all other elements will basically influence by the traits and competencies that an expatriate possessed. Hence, those traits and competencies could be the determinant factor of successful adjustment.

In a research that conducted by Suutari and Brewster (2001), they have found out that, in accordance to previous studies, the important competencies that used as selection criteria of expatriates were ranked based on their importance as follows:

- i. Work related competence
- ii. Language skills
- iii. Relational skill
- iv. Cultural sensitivity

Given the importance of the outcome from those studies, it was definitely assisting global HR managers in recruiting the right person for expatriation task. However, this might not be the case since most of these studies have been carried out in the western world, by looking at the MNCs that come from developed countries like US and UK (Suutari and Brewster, 2001). Hence, it is questionable how far the lessons learnt may apply elsewhere. The point has been supported with the study done by Suutari and Brewster (2001) on Finnish expatriates, which has identified a slight different in the finding compared to the earlier work in US and UK. Other than that, Tung (1981, 1982) also has identified the different view of American and Japanese expatriate manager on the reason of expatriate failures.

Considering those probable differences and supported by the fact that there has been lack of literature in this region (Asia), thus this study is seemed important in identifying the differences and bridging the gap of literature.

## **2.4 Malaysian Context**

In the context of Malaysia, the literature on expatriation is none to existence. Given the participation of Malaysia in the international businesses and world economy has becoming more and more significant with the emergence of Malaysian MNCs. Thus, this study is very important in making local literature available for references.

The other factor of why this study should be conducted, is due to the potential differences in views and actual practices from the findings that been accumulated in the western world. This is because; Malaysia is a unique country with multi-racial society and distinctive cultures. Thus, those factors can be the influential factors in any IHRM practices in Malaysia.