Staffing top management positions in multinational subsidiaries – a local perspective on expatriate management

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Abstract—International staffing decisions, their determinants and effectiveness in the context of multinational corporations (MNCs) are among the core inquiries in research on MNCs, particularly International Human Resource Management (IHRM) studies. Therefore, there is ample literature on expatriate management that covers a very broad range of topics. However, much of the research effort so far has been made to explain expatriation mainly from the headquarters’ perspective. What is missing in such studies is multinational subsidiaries personnel’s view on this issue. This article attempts to fill this gap by answering a general question concerning international staffing decisions: Who should run a foreign subsidiary – an expatriate or a local manager? Moreover, the additional aim of this article is to indicate what should be done to improve expatriate management. The empirical findings can also contribute to understanding of the general perception of an expatriate’s role by subsidiaries’ employees. The emphasis is mainly put on staffing decisions with regards to the Chief Executive Officer’s (CEO) position in a multinational subsidiary. Yet, some empirical findings contribute to the general literature on expatriate management. The author study resulted in the following major findings: 1) Regardless of who occupies a CEO’s position in a multinational subsidiary, i.e. an expatriate or a host country manager (HCN), he/she must be aware of his/her role as a liaison between the cultures (namely, the national cultures and the corporate culture, and the subsidiary culture); 2) To be effective as the liaison, the manager needs to develop his/her cultural competence and the local cadre’s skills; 3) He/she should also actively strengthen the subsidiaries’ position within the MNC’s structure.

Index Terms—International Human Resource Management, international staffing and expatriate management, multinational corporations, multinational subsidiary

I. INTRODUCTION

MULTINATIONAL Corporations (MNCs), when expanding overseas have to determine the staffing configuration in their multinational subsidiaries. As practice has proven, MNCs, typically in the initial period of a subsidiary operation, delegate their management, usually to a trusted parent country national (PCN) or, which is less common, to a third country national (TCN) – an expatriate [1], [2]. The literature on international staffing including expatriate management is abundant and growing. Several major topics can be identified here with regards to two primary streams: 1) concerning expatriate management: a) effective selection criteria and selection mechanisms of a candidate for overseas assignments [3]; b) the preparation and training of an expatriate for cross-cultural interactions [3]; c) an expatriate’s adjustment to a foreign environment [4]; d) an expatriate’s performance appraisal and compensation [5]; e) the repatriation of managers into a company’s headquarters (HQ) [6]; f) the determinants of expatriates’ success (including cultural competence), their failure ratio and its costs [7], [8]; g) the role of an expatriate’s spouse and a female expatriate [6], [9]; 2) concerning the staffing configuration: a) international staffing options [10]; b) the determinants and motives of staffing options, including strategic predispositions of MNCs [11], [12], [13]; c) the effects of staffing choices [1]; d) the staffing trends and patterns [14], [3]; e) the Human Resource Management (HRM) policy applied to international staffing [15], [16]. The principal focus of the studies identified above is on PCNs and less attention has been paid so far to the effective utilization of TCNs and host country nationals (HCNs) in staffing positions in multinational subsidiaries. Moreover, MNCs’ headquarters’ points of view in the research are prevailing. There is a lack of a multinational subsidiaries’ workforce perspective on this issue [17], [18]. Additionally, a considerable amount of studies has applied a quantitative approach in identifying the staffing composition in MNCs [17].

This article tries to fill the gap of the literature on international staffing and expatriate management. Its aims are as follows: 1) the author tries to discern who should run a multinational subsidiary; 2) there is also an attempt to indicate what can be done to improve expatriate management in MNCs. The article uses a qualitative approach within the research conducted by the author. Consequently, it strives to reflect a
multinational subsidiary’s personnel view on these issues. The structure of the paper includes the literature review concerning staffing decisions with regards to executive positions in multinational subsidiaries and the effective utilization of expatriates. The subsequent section presents a research method and sample characteristics. Then, the empirical findings are discussed. Finally, the article comprises the closing section – conclusion that elaborates on the implications of the research findings along with their limitation and a suggestion for extension of the research.

II. LITERATURE REVIEW

A. Staffing Executive Positions

The literature on international staffing offers answers to several scientific inquiries: 1) What are the staffing options available to MNCs?; 2) Why is a particular staffing option chosen?; 3) What are the effects (the advantages and disadvantages) of a given staffing option?; 4) What do the international staffing patterns look like and how are they changing/have been changing? Two of them, namely the first specific inquiry and the third one support the quest for the optimal staffing executive positions in a multinational subsidiary. Therefore, only these two streams of the international staffing literature will be analyzed in this section.

MNCs, when staffing overseas, may decide between PCNs, HCNs, TCNs, or, as suggested in more recent studies, local-hired foreign managers [19]-[21]. Authors have explored potential advantages and disadvantages of each option, suggesting that MNCs have to determine their optimal staffing composition in each country of operations [21]. Basing on the literature review [7], [20]-[26], Table 1 summarizes possible effects of the staffing options.

Since previous research on international staffing options has been primarily limited to a discussion of the potential effects of employment of expatriates versus locals, empirical evidence about actual experiences of MNCs with these options is also needed. For example, Kühlmann and Hutchings provided some evidence with regards to German and Australian MNCs in China [21]. They observed that both the expatriates assignments and the employment of local managers resulted in several problems:

- expatriates’ family difficulties with adaptation,
- expatriates’ lack of knowledge of the Chinese socio-cultural environment;
- cross-cultural misunderstandings between the local employees and an expatriate,
- an expatriate’s lack of command of the local language,
- an expatriate’s isolation from the local social networks,
- limited foreign language proficiency among the local managers,
- lack of necessary business skills among the locals,
- low levels of organizational commitment and performance motivation exhibited by the local managers.

Notwithstanding the available staffing options, the substantial body of literature and research generally suggests that key positions in multinational subsidiaries (e.g. Chief Executive Officer - CEO), which require high trust, must be staffed with expatriates [27].

**TABLE I**

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<th>Staffing Options – Potential Advantages and Disadvantages</th>
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<td><strong>Option</strong></td>
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Hence the author’s aim is to indicate who is the best choice for the top management positions in a multinational subsidiary – an expatriate or a host country manager, PCNs and TCNs are considered as *expatriates* whereas HCNs and local-hired foreign managers as *local managers*. 

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Nevertheless, there are also voices that the expatriate staffing model where PCNs are primarily used is no longer sufficient, e.g. due to talent shortages [28].

B. Effective Utilization of Expatriates

Research on effective utilization of expatriates should reflect empirical studies concerning all the aspects of expatriate management from the selection of a candidate to the premature return of managers from foreign assignments. Selected recommendations from the literature review are reported in this section (the choice was made with regards to the empirical findings discussed in the subsequent part of this paper). For example, Kühlmann and Hutchings remark that expatriates should identify and develop potential local successors via on-the-job-training and mentoring to senior local managers. They also recommend that candidates for overseas assignments should have, apart from outstanding technical or managerial competencies, prior experience or an ability to develop local nationals [21]. Additionally, the large body of literature and research on expatriate management suggests extensive cross-cultural trainings for managers and their families on foreign assignments, including speaking local language (see e.g. [21], [27], [29]-[30]).

Effective utilization of expatriates requires understanding of the reasons for their failures on overseas assignments. This problem is widely discussed in ample literature (see e.g. [31]-[33]), whose authors emphasize that expatriates’ premature return can be motivated, among others, by:

- the problems of an expatriate and/or a spouse with adjustment to the host country, and/or family problems;
- a lack of personal and emotional maturity of an expatriate,
- ineptitude to meet increased responsibility,
- a lack of motivation to work in a given location;
- an expatriate’s insufficient skills.

Expatriates are expected to enact certain roles determined by MNCs and included in their assignments’ goals and tasks. Effective utilization of expatriates means meeting such a requirement. The roles of expatriates that have been identified in literature include, among other issues [32]:

- a controller – an expatriate must ensure that his/her subsidiary operates in accordance with the HQ’s direction,
- a coordinator - an expatriate needs to collaborate with local employees to ensure goals achievement of both the parent company and the subsidiary,
- a developer/transferor – an expatriate must develop the local employees’ skills through knowledge transfer.

Moreover, an expatriate to be effective in his/her role needs to adjust the enacted role to specific local personnel’s traits [34]. Other authors referring to the liaison/coordinator role of expatriates notice that they are effective in this role if they are highly committed to both the parent firm and the subsidiary, which requires reconciling the often conflicting needs of these organizations [35].

III. EMPIRICAL FINDINGS

A. Research Method and Sample

Characteristics [18]

The empirical findings reported in this section are a portion of the broader research project carried out at the end of the year 2009 and named: “Cultural barriers in functioning of MNC’s foreign subsidiaries located in Poland”. The major aim of the study was the analysis of selected cross-cultural problems in multinational subsidiaries. The qualitative research assumed detailed scrutiny of various types of direct and indirect cross-cultural interactions via means of semi-structured interviews with managers and specialists. They were working in different departments in subsidiaries owned by MNCs’ from Europe, North-America and Asia (their share in the non-probabilistic sample was 48%, 18.8%, and 12.5% respectively, whereas the remaining part states for the entities with mixed capital). The parent companies were mostly large and mature MNCs experienced in international markets.

Although the major accent in the study was on the barriers to cross-cultural interactions, the results revealed some interesting findings with regards to staffing executive positions in subsidiaries and expatriate management from a local perspective. These findings address the research questions depicted in Figure 1.

![Fig. 1. Research questions.](image)

The answers to the research questions are given in the subsequent paragraphs.

B. Research Findings [18]

With regards to the first research question (see Fig. 1), there was a dichotomy in the interviewees’ perceptions of an expatriates’ role in breaking cross-cultural barriers. On the one hand, the expatriates were seen as a source of cultural barriers. On the other hand, the research revealed the positive aspects of their presence in subsidiaries. The expatriates contributed to
emergence of cultural barriers when their skills or motivation to be an assignee were insufficient, or when their real tasks on the overseas assignments were unclear from the viewpoint of the local employees. It suggests that an expatriate’s role as a liaison is of a complex nature. Furthermore, the assignee’s effects-costs employment ratio could negatively affect the perception of expatriates by local employees. The necessity to cover the costs of an expatriate’s pay package from the host country budget was a heavy burden for the subsidiaries. Concerning the positive aspects of an assignee’s presence in subsidiaries, the interviewees mentioned the opportunity to utilize an expatriate’s knowledge.

To be effective as a leader an expatriate needs to follow values accepted by the employees. A lack of such acceptance creates an additional barrier to interpersonal interactions. In cross-cultural settings it can affect the perception of an expatriate and reinforce the existing cultural stereotypes. Thus, during the interviews a question about values was asked (see Fig. 1, research question 2). The interviewees’ answers can be divided according to two points of view: relativistic (or synergistic) and universal. The relativistic approach (since no culture takes precedence over the other) suggests a necessity to meet the subsidiary personnel half way and find a solution accepted by the whole MNC in a given time and locale. An expatriate must cooperate with the managers and employees to set appropriate work values. MNCs may benefit from this approach since it can produce a kind of synergy through a learning process embedded in a cross-cultural interaction. It does not mean neglecting the corporate values system. With regards to the universal approach, the interviewees pointed out that either a MNC or general values should guide an expatriate’s decisions. This point of view does not assume adjustment to a subsidiary’s employees’ expectations and their values system, rather an imposition of a set of values viewed as universal. The research revealed an interesting observation, namely that the coherence between the values declared and the actions taken is important. A person responsible for running a subsidiary or its part, regardless of being an expatriate or a HCN, needs to be authentic. A lack of authenticity may cause suspicions among the local employees, who then will not trust the manager.

The third research question concerning the roles that local managers play in solving cross-cultural problems (see Fig. 1) was asked to find the mechanisms that enable effective interactions in cross-cultural settings. Notwithstanding the differences in the answers, there was a common understanding among the interviewees of the roles a local manager as a CEO should play. These roles encompassed being a liaison between cultures, a person able to improve the cross-cultural interactions, and being an entrepreneur who is active in building his/her subsidiary/unit position within the MNC. Therefore, a local manager needs to develop his/her potential and competence, including the cultural competence.

Another notion by the interviewees about expatriates concerned how they were perceived by the host country lower-level managers and the local peers (see Fig. 1, question 4). An expatriate’s role in breaking cross-cultural barriers has been already discussed. Yet, additional comments can be drawn. Firstly, the subsidiary’s personnel expected from the expatriate at least basic knowledge of its general environment. Otherwise, misunderstandings and barriers to cooperation might have arisen. In the case of the analyzed subsidiaries, a lack of knowledge about the Polish financial system resulted in misunderstanding among the foreigners which concerned the importance of accounting procedures in Poland. They could not comprehend the specifics of the culture regarding to accounting activity (e.g. the status of fiscal audit in Poland that caused fear of Polish managers). Consequently, the expatriates neglected accounting activity, leaving the Polish accountants depreciated.

A necessity of speaking the local language by an expatriate was an additional issue discussed during the interviews. However, the respondents differed in their opinions in this area. Approximately 1/3 of them admitted that an expatriate should have a command of the local language, as reported by a manager in a subsidiary of a French MNC:

“During meetings we often used an interpreter or bilingual expats, which caused misunderstanding too, because the interpreter was not neutral. It was assumed he or she would take a position. The translations were often emotional and not free of cultural differences in interpretations.” [36].

The interviewees indicated several reasons why speaking the local language by an expatriate can be an advantage: 1) it increases an expatriate’s effectiveness since it enables communication with and motivation of the lower-level employees; 2) it is sometimes a necessity because in some sectors in Poland many officials still do not speak foreign languages; 3) it helps to better understand the local culture and minimizes interpretation errors. Some interviewees remarked a lack of necessity of an expatriate to speak the local language. They reasoned it as follows: 1) working in a MNC means that a person accepts communication in a functional foreign language; 2) a lack of a command of the local language protects a subsidiary’s interest by excluding an expatriate from some sensitive information.

A general conclusion on an expatriate which can be drawn from the perspective of a host country workforce suggests that the way how an expatriate is assessed by the local cadre depends mainly on the effectiveness of his/her performance and his/her ability and willingness to cooperate with the locals. A local manager and employees identify with an expatriate regardless of his/her nationality if: 1) he/she understands and respects the local differences and is able to adapt to them; 2) he/she is an effective spokesperson of his/her subsidiary’s interest and cares about its development.

It can be stated that a host country point of view enriches
understanding of the reasons for expatriates’ failures (see Fig. 1, question 5) hence the research revealed some additional hindrances to the effectiveness of international assignments beyond those indicated by the other authors (see the literature review section). The reasons for expatriates’ failures in the analyzed subsidiaries were as follows:

- weak motivation and insufficient skills suggesting problems with selection and recruitment of appropriate candidates on overseas assignments,
- high costs of expatriates’ pay package that subsidiaries were charged with,
- ambiguity of an expatriate’s responsibilities,
- difficulties in fulfilling the role of liaison.

Referring to the empirical findings depicted in this section, some recommendations how to improve expatriates management can be formulated (see Fig. 1, question 6):

1) Concerning an expatriate’s roles:
- An expatriate should have higher skills than the HCN and perform a developer/transferor role. He/she should train his/her successor from among the local personnel. After some period of time, when the authority is delegated to the HCN, the local employees’ motivation and morale raise, among other issues, due to improved communication.
- An ambiguity of an expatriate’s role can cause mistrust, create conflicts and affect negatively an expatriate’s performance appraisal by the local cadre. Therefore, such an ambiguity should be avoided.

2) Concerning HQ tasks:
- HQ needs clearly communicate its subsidiary what tasks and responsibilities an expatriate has and how important he/she is.
- HQ should select for foreign assignments expatriates with high motivation to work in a given host country, otherwise they will not be effective and successful.
- HQ should increase the financial transfer in the subsidiary budget to help it cover some costs of an expatriate assignment. As some interviewees pointed out there could be resistance among the local employees concerning the costs of an expatriate’s pay package. Additionally, their motivation may decrease if there are significant disproportions between the expatriates’ and the host employees’ compensation level.
- HQ’s managers must be aware that cross-cultural differences between the parent and the host country will probably affect expatriates’ abilities to realize the goals according to HQ’s demands and expectations.

IV. Conclusion

A. Implications of the Research Findings

This paper contributes to the literature on international staffing with regards to the top management positions in multinational subsidiaries. It also adds to the research on expatriate management. It emphasizes a local perspective on these issues.

With regards to international staffing decisions, the interviewees were directly asked about who should be in charge of a multinational subsidiary – an expatriate or a HCN. Almost half of the respondents preferred a Pole or someone well-acquainted with the Polish general and task environment. Below some opinions are enclosed, which reflect this viewpoint [36]:

- “There are sectors where CEO’s nationality is not important. Nonetheless, there are sectors that require in-depth understanding of the local specifics.”
- “Now, in our country good managers are not in short supply, so expatriates are not needed any more to run the foreign subsidiaries”.
- “Expatriates’ assignments in Central and Eastern Europe can be now justified by a need of control resulting from the headquarters’ lack of trust in the local staff.”

The interviewees also observed that if a Pole is in the position of CEO, he/she can get in touch with the lower-level cadre easier, which raises their morale [36].

Moreover, the research suggests that the nationality of a subsidiary’s CEO is of minor importance. Sometimes an expatriate seems to be a practical option. This was e.g. in the case of a subsidiary of a Japanese MNC where a Japanese expatriate could cooperate with the HQ easier due to a significant communication barrier. Another time, a HCN is a viable alternative, e.g. if there are significant differences between the local and home markets that require in-depth knowledge of the host country specific [36].

Important implications of the empirical findings are that the additional roles of senior multinational subsidiaries’ managers (both expatriates and HCNs) were pointed out, namely an entrepreneur and a spokesperson. Furthermore, the local perspective of this study has revealed that managers running foreign subsidiaries need to be authentic in their roles by acting according to the declared values and be willing to cooperate with the locals. Thus, some significant implications regarding expatriates’ reasons for failures from a local perspective were indicated and some recommendations on how to improve expatriate management were stated as well. To sum up, the necessity to avoid ambiguity of an expatriate’s role along with solving the problem of financing of his/her assignment should attract more attention of HQ’s managers.

B. Limitations and Future Research

Several limitations of the study can be enumerated: 1) This
was a qualitative type of research, where a single person in each subsidiary was interviewed in most cases. Consequently, the obtained results might reflect individual opinions of the respondents not shared in the whole company. A future in-depth case-study in selected subsidiaries could solve this limitation. 2) The size of the sample was relatively small, thus future research can include more units in the sample. 3) There are also limitations concerning a possible generalization of results due to the method applied to select the sample and its composition (mainly Poles as the interviewees and Poland as the location of the subsidiaries carry the risk that the results reflect a Polish perception on the issues under discussion). Therefore, future research could be extended on subsidiaries operating in other national markets.

REFERENCES


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