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# OVERCOMING FAILURES IN PLACEMENTS OF PEOPLE FROM PARENT COMPANIES TO A FOREIGN SUBSIDIARY ORGANISATION

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## *Abstract*

*This paper draws upon the results of an initial pilot study conducted by the authors, which aimed to investigate factors affecting outcomes when Multi National Enterprises (MNEs) place parent company employees in foreign subsidiary organisations. In addition, the research seeks evidence to support a theory that the involvement of host company staff in the placement process may improve overall outcomes. The research included an employee questionnaire and interviews with managers from a range of industrial organisations with links to India. The survey was able to differentiate between a number of common reasons why foreign placements may be viewed as a failure by both the parent and host companies. This paper distils from the survey some recommendations for avoiding failure in the placement of people from parent companies into a foreign subsidiary organisation and identifies a range of positive and negative issues raised by involving host company staff in the selection of parent company placement people. The authors believe that the results from this research will be of general interest to any organisations involved in the placement of people in unfamiliar cultural environments.*

**Keywords:** *outcomes, organizations, host company staff, placement process*

## INTRODUCTION

The ever increasing expansion of business operations as multi-national enterprises (MNEs) presents HR managers with a range of novel challenges, as they have to deal with the expanding diversity of operational environments as well as successfully deploy people of different nationalities into alien cultural systems. This issue is not new, as illustrated by Joynt and Morton (2000) and UNTCAD (2000) who identified that it had grown in prominence during the latter part of the twentieth century, by which time they estimated there were in excess of 60,000 MNEs operating globally. Over the ensuing years of the early twenty first century the globalisation trend has continued and broadened so that it is no longer the domain of enterprises from developed nations alone. Enterprises from developing nations have experienced phenomenal success and have emerged as players on the global stage. Enterprises from India, China and Brazil serve as exemplars in relation to the latter point. This study has focussed on the experiences of HR managers working for MNEs with operational links to India to learn if this current wave of globalising businesses expansion is experiencing the same challenges as earlier waves, or if lessons learned from earlier experience can maintain its relevance in the cultures of these newly emergent MNEs.

The particular points of focus for this paper are the strategies adopted by HR managers when placing employees from parent company offices into subsidiary operations. Two strategies, described in the literature as Ethnocentric and Polycentric were chosen to provide a basis for comparison and are described in more detail below. The study was small with a questionnaire sent to a targeted group of HR managers from International MNEs with subsidiary operations in India and from Indian MNEs with subsidiaries outside India.

The aim was to explore the effects of ethnocentric placement policies on the moral and motivation of high calibre staff in subsidiary operations and to extrapolate some suggestions for overcoming any negative outcomes resulting from such policies.

## LITERATURE REVIEW

Tremendous developments in Indian organisations were documented by Bhalla (2002), who explained that trade liberalisation policies implemented in the 1990s enabled the Indian economy to globalise and grow rapidly. A good illustration of the impact of Indian liberalisation policies is provided by D'Costa's (1995), who charted the increase in vehicle production in India during the 1990s, which resulted in India emerging as an important global manufacturer in the Automotive Industry. More recently, Joseph and Abraham (2005) were able to show that, whilst the manufacturing sector was developing, the service industries were likewise experiencing significant expansion. The growth of the service sector in India encouraged considerable numbers of foreign MNEs to set up subsidiaries in the country. Bruche (2009) estimated that the Number of MNEs setting up just R&D in their Indian subsidiary had grown from negligible numbers to over 780 during the period between 1990 to 2008.

A study by Sharma (2011) identified a number of essential personality traits for managers involved with international projects, namely cultural empathy, open-mindedness, social initiative, emotional stability and flexibility. Lovett et al., (2009) added to these, stating that cognition and the social personalities of the managers also play an important role in achieving successful outcomes. Schuler et al (2001) and Calvey (2004) identified a set of competences required for HQNs, suggesting that MNEs seeking to place HQNs in international subsidiaries must take into consideration the host's economic and political factors, local legislation, local labour market demographics, local management style and local employment relations. Studies by Miroshnik (2002), and Mead (1998) emphasised that international managers need to possess the following major traits to be successful in operations where the culture of the local operation differs from that of the parent company.

- **Adaptability** of the international manager to adjust and cope with the factors affecting their personal and professional life that may be different from their country or continent of origin. (Harris 2004, Miroshnik 2002).
- **Positive attitude** towards the traditions and cultures of the host country often results in good relationships between the manager and the local workforce, which impacts the overall performance of the local operation (Mead 1998, Park et al 1996).
- **Emotional stability and maturity.** To change a person's beliefs in the ways of doing things often requires effort over long period of time, and introducing new strategies, principles and practices of the PC must be patient and mature enough not to force matters (ibid).
- **Language ability:** Knowledge of the local language enhances understanding of attitudes, practices and culture of the host Country, but its importance is often underestimated (Miroshnik 2002, Park et al 1996).
- **Technical ability and managerial skills:** are the other significant traits identified by Mayerhofer (2004), Murray (2003).

The variety of strategies that are employed by MNEs for staffing international placements can be classified as Ethnocentric, where key positions are filled with HQNs, or Polycentric, where LSNs are recruited to manage subsidiaries and HQNs are to occupy mostly senior positions at corporate HQ level (Dowling et. al., 1993, Bardhan et. al. 2004).

Other strategies include 'Geo-centric approach', where the best staff members are selected in spite of their nationality from throughout the organisation and 'Regionocentric', where the MNE divides the operation into geographical regions and transfers its managers within the region (Perlmutter & Heenan, 1979). Ethnocentric approaches were initially promoted for use in the early stages of internationalisation, to help newly established subsidiaries to understand the strategic principles of the parent company (Kroeber & Kluckhohn 1952). Prahalad et.al, (1998), also found that the reason many MNEs cited for adopting ethnocentric strategies, was that local subsidiaries lack qualified or capable staff. Negative aspects of ethnocentric strategies were identified by Zeira (1979) who stated that it limited the promotional opportunities of LSNs leading to reduced productivity and increased turnover amidst that group. In addition, the time needed for expatriates to adapt to the host countries culture takes a long time, during which HQNs often make mistakes and poor decisions, which an LSN would not have done due to his inherent knowledge of the host conditions. When HQN and LSN compensation packages are compared, the income gap in favour of the HQNs is viewed by LSNs as unjustified, the latter point is more pronounced when the HQN proves to be incompetent in the eyes of the LSN or when HQNs, in an attempt to avoid making mistakes, rely heavily on their LSN counterpart. For HQNs, a key position in a host country means new status, authority and an increase in the standard of living, which tends to dull their sensitivity to the needs of their host country subordinates and are not conducive to objective self-evaluation (Collings et.al. 2006, Dowling et. al., 1993, Lazarova 2006).

With regard to Polycentric strategies, Budhwar et.al (2008) and Bardhan et.al. (2004) described a number of reasons in favour of its adoption. First, employing LSNs eliminates the language barriers. Second, it reduces legal and political complications, as employing of LSNs allow a multinational company to take a lower profile in sensitive political situations. Third, it is inexpensive to employ LSNs even if a premium is paid to attract high quality local applicants. Finally, a polycentric approach provides better continuity to the management of the subsidiary as contrasted against the use of expatriates, who usually have a time limited stay in foreign countries resulting in relatively high staff turnover. The major difficulty encountered when adopting a polycentric strategy is bridging the gap between the subsidiary managers and the parent-country managers at the corporate HQ. Language barriers, conflicting national loyalties, a range of cultural differences and differences in attitudes to business may isolate the corporate headquarters staff from foreign subsidiaries (Collings et. al, 2006). According to Alrawi (2008) this may result in an MNE becoming a "federation" of independent national units with nominal links to corporate headquarters. He also noted that a polycentric staffing strategy affects the career paths of both LSN and HQN managers by limiting opportunities to gain experience outside their own country (Scullion, 2006).

Studies by Hamill (1984) and Shen (2006) attributed the strategy chosen by an MNE to be based on a few key factors. Host-contextual factors include the host's political, legal, economic and socio-cultural factors. Firm-specific factors are the international strategy, international organisational culture, stage of internationalisation, type and size of industry, reliance on the international markets and the top management's perception of the host HRM systems. Other factors include trust and personal moral merits. Staffing policies that utilise these factors are usually seen as the means by which a parent company exerts control over subsidiary operations. According to Lyles & Perger (1993) the extent of control by parent companies over their subsidiaries is an essential determinant of the parent-subsidiary relationship. Often parent companies force cultural control over a subsidiary by means of a

combination of strategies, which are aimed at creating a deeper understanding of the parent company culture (Roth & Nigh, 1992). The studies of the extent of such practices being employed in the Indian organisations are less and needs more exploration.

In the rapidly evolving organisational scenario of India, effective international placements and transfer of employees have become two of the major factors in the successful performance of MNEs. This emphasises the importance of effective IHRM practices as described by Schuler et al. (2001). MNEs have to adopt a variety of strategies to address IHRM decisions, which includes the usage of expats, Parent Company Nationals or the Head Quarters Nationals (HQNs), Host Country Nationals or the Local Subsidiary Nationals (LSNs) and Third Country Nationals or Other Subsidiary Nationals (OSNs) in foreign placements. Even though there are a few studies that have touched upon this subject (for example, Dowling 1994, Mead 1998, Scullian 1994 and Shen 2006) it still remains a relatively undeveloped domain. Shen (2006) also pointed out there are very few studies on IHRM practices related to MNEs with subsidiaries in transitional economies like India, compared to that of MNEs operating in less developed countries. This is supported by the research by Glover and Wilkinson (2007), Sherif et.al. (2009) and Thite et.al., (2011) who point out that the impact on LSNs when using HQNs on placement in India based subsidiaries is not well understood. This study explores the above domain to have a clearer perspective on the IHRM practices adopted in the Indian organisational context and the influence of strategy choice on placement outcomes.

## **METHODOLOGY**

This overall study may be viewed as small pilot study, which included a questionnaires and interviews of a small sample of MNEs HR managers. Initially a qualitative study was conducted with a few HR managers and academics, the feedback received was used to develop a questionnaire that was posted online using a survey hosting website ([www.surveymethods.com](http://www.surveymethods.com)). The target population for the main study were HR managers of MNEs involved in Manufacturing, Computing and IT, construction and Banking operations in India. The questionnaire included ranking questions, open ended and closed ended questions in accordance to the descriptive or the exploratory nature of the question (Malina et.al. 2011). The study received 37 completed questionnaires, and then a series of semi-structured interview were conducted with a sample of HQN and LSN managers to discuss and explore details of responses to the questionnaire survey where further clarification was needed. Out of the total responses received, 25.7% were involved with manufacturing processes, 5.7% being from banking and finance organisations and the rest of them from ICT and service sectors. From the responses, 37.2% of the organisations were a foreign based MNE with Indian operations, another 31.4% were Indian based MNEs with foreign operations. 23% of them were Indian MNEs with Indian operations.

## **RESULTS**

The most significant result from the entire survey was the response a question about reasons for the failure of international placements. 87.5% of the target managers identified that the lack of cultural adaptability of HQNs on placement was the major reason for their failures.

The major factors constituting cultural adaptability were identified from the interviews and secondary research and were quantitatively ranked in order of their importance (table 1).

One of the manager interviewed stated that “If the HQN approaches the workings of the host organisation, with a parent company approach - then success is less likely”. Whilst another manager insisted that there is a need for ‘Enhanced soft skills’ of the HQNs - such as cultural understanding and their open mindedness towards the host culture and traditions. A HQN having returned from India noted the shop floor workers to be wearing rings and jewellery, which contradicted the HQ policies, and whilst enquiring with a local manager, he was told that “it is a religious belief that the particular spiritual jewellery brings them luck and protects them. If the manager asks the worker to remove them and if any fatalities occur, then it will be blamed on the manager”. It was accepted unanimously that language barrier poses least barrier, as most of the Indian top and middle managers speak English, which has become a local corporate secondary language next only to the specific regional language.

**Table 1 – Prioritised traits that define cultural adaptability**

Trait	Rank
Positive Attitude	1
Adaptability	2
Cultural Understanding	3
Emotional Stability and Maturity	4
Language Skills	5

From the HQ perspective, respondents ranked the major reason for using HQNs in international placements as “the need to maintain good communication between the HQ and the subsidiary”. Communications were described in terms of diffusing company information, achieving a common corporate culture and knowledge transfer. As one manager stated “When the communication is not good, there is always a fear of losing control over the subsidiary in terms of the company culture and overall policies”. Another added that “If the HQN fails in this task due to any reason, then the communication between HQ and HC further deteriorates”. All the managers contacted agreed that in India one commonly cited reason in the literature to justify the use of HQNs in international placements, namely that local subsidiaries lack qualified personnel, was not applicable.

When asked about a fourth factor (Table -2), the respondents related it to the second factor stating that the initial reluctance of the HQ is because that it is difficult for the LSNs to understand HQ policies and to implement them properly in the subsidiary.

**Table 2 – Reasons to recruit HQNs for operations in an overseas subsidiary.**

Reason	Rank
Need for maintaining good communication with HQ	1
Impossible for the new LSNs to understand the missions, goals & procedures of the parent company	2

Lack of qualified LSNs	3
Reluctance of the HQ to employ LSNs	4

Local subsidiary managers questioned in the survey, identified the major disadvantages of employing a HQN on placement in their organisation (Table 3). 62% of managers stated that the cost of remuneration was too high and ranked as top priority. Follow-up interviews showed an interesting result, namely that the cost of remuneration and maintaining a HQN on placement is a low priority factor considered by HQ managers, as the financial and operational advantages to the organisations as a whole are ranked more highly.

**Table 3** – *Ranking the disadvantages of employing HQNs*

Disadvantage	Rank
Cost of remuneration would be high	1
It becomes difficult to motivate high calibre LSNs.	2
LSNs' promotional opportunities are affected	3
Cost of orientation, training of HQN would be high	4

But the interviews also identified that one major shortcoming to the use of HQNs on placements was that the LSNs often felt that their promotional opportunities were constrained, with the result that it is difficult to motivate the most capable staff in the local subsidiary as many times the LSNs felt subordinate to the HQNs. This result is interesting, as HQN placement personnel need a good hosting LSN manager if they are to successfully adapt to the local culture, for formation of strategies and for implementation of parent company's policies and procedures. All of the managers involved in the survey pointed out that even though LSNs understood the difficulties of the HQNs working abroad, continuous and frequent adoption of ethnocentric approach played a major role in de-motivating local staff.

## CONCLUSIONS

This small study has given insights into the various aspects of International placements. It has served to state the essential traits of an international manager and has ranked them for successful operation in an Indian milieu. The research also shows the failure of the placement from both the HQ and the LS perspective. It will serve to have an overall understanding of the factors to incorporate in a placement in order to overcome/minimise the failures in placement. Motivating high calibre LSNs, communication links with the HQ and the cultural adaptability are seen to be the major factors that play an important role. These were almost unanimous result, thus providing the clearest indicator of how this paper can point to ways in which MNEs may scrutinise their international recruitment strategies to ensure they maximise their effectiveness. In order to cumulate all the above three factors – this research hypothesises that the involvement of LSNs in the recruitment of HQNs for international placements would enhance the success and reduces the chances of failure of placement outcomes. The hypothesis also states that

this technique will increase the empowerment, moral and motivation of LSNs and increase the HQNs' sensitivity to the needs of LS. This paper has proposed that HR managers should adjust their strategies through a mirrored ethnocentricity practice, reflecting the recruitment needs of both Head Office and Foreign subsidiary operations. The findings are only an initial result and further research shall also explore how the LSNs' involvement can be practically implemented and the benefits measured. A larger study is proposed involving a more in-depth analysis of one type of organisation e.g., manufacturing and a replicating the same study on another sector such as service and ICT.

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