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## Expatriate versus host country manager – who should run a foreign subsidiary?

*Keywords: expatriate management, cross-cultural interactions, cultural factors, cross-cultural barriers*

### **I. Introduction**

Transnational Corporations (TNCs), when establishing a foreign subsidiary in a country, very often, at least initially, delegate their management, to a trusted home country national – an expatriate. There is ample literature on expatriate career management. The authors analyze effective selection mechanisms of a candidate for overseas assignments [see Przytuła S., 2009, pp. 33-45; Tompenaars F., Hampden-Turner Ch., 2005, p. 257; Schroeder J., 2010, pp. 81-91], the preparation and training for cross-cultural interactions to manage a cultural shock [see Tung R.L., 1982, pp. 57-71], and an expatriate's performance appraisal and compensation [Deresky H., pp. 348-349, 356-358]. There is also a strong emphasis on the proper repatriation of executives into a company headquarters to benefit from increased skills and experience of the returned managers [see Schroeder J., 2010, pp. 185-197; Adler N.J., Gundersen A., 2008, pp. 284-295]. Moreover, the authors study the reasons for expatriates' low productivity and, so called, failure ratio and its costs [Schroeder J., pp. 79-81]. Finally, there is much research on the role of an expatriate's spouse [see Adler N.J., Gundersen A., 2008, pp. 314-344; Punnett B.J., Crocker O., Stevens M.A., 1992, pp. 585-592, Schroeder J., 2010, pp. 91-95]. However, TNCs' headquarters' points of view in such studies are prevailing. What is missing in such analyses is a foreign subsidiaries staff's perspective on this issue.

This article tries to fill the gap identified above by answering a general question: *Who should run a foreign subsidiary?* The answer is based on a research conducted by the author and carried out in foreign subsidiaries of TNCs in Poland. The results of these studies have contributed to the following assumption: no matter who runs a foreign subsidiary, an expatriate or a host country manager, he or she must understand his/her role as a liaison between the cultures. A foreign subsidiary manager is considered a bridge between the national culture and the corporate culture, and the subsidiary culture. To be effective in this role, the manager needs to develop his/her cross-cultural competence, invest in the local staff skills and build actively the subsidiaries' position within the corporate structure.

## 2. Who should run a foreign subsidiary? – Empirical findings

The research that inspired the author to answer the question: *Who should run a foreign subsidiary, an expatriate or host country manager?* was conducted in foreign subsidiaries of TNCs operating in Poland at the end of the year 2009. The research project was aimed at solving the following problem: "Intercultural barriers in functioning of TNCs' foreign subsidiaries located in Poland". The goal of this study was the analysis of chosen cross-cultural problems in these entities. Thus cross-cultural interactions were scrutinized. The information was obtained from 45 managers and specialists<sup>1</sup> working in subsidiaries owned by TNCs' from Europe, North-America and Asia, mostly large and mature entities with a long-lasting performance on international markets<sup>2</sup>. The data was collected via semi-structured interviews<sup>3</sup>. Each lasted approximately 1.5 hours and was conducted in the company offices in most cases.

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<sup>1</sup> They were Poles and two foreigners living in Poland for years and speaking Polish fluently. The interviewees were in most cases middle-level managers and represented various departments: technical/manufacturing, administrative, sales, Human Resources, finance, accounting, quality, logistics, and others. They had worked for TNCs' subsidiaries for at least 1.5 years (more than 40% of the respondents had more than 4.5 years of work experience in TNCs). The majority of the respondents had international experience before, such as frequent overseas trips, living abroad, working for foreign companies or working abroad [Rozkwitalska M. 2011, pp. 151-161]. This foreign experience could have affected their attitudes to the matters discussed and influenced their cultural competence.

<sup>2</sup> The non-probabilistic sample was created to conduct the research [see Rozkwitalska M., 2011, pp. 143-150].

<sup>3</sup> As described in the field literature, this method enables to achieve deep and detailed observations. It can also provide more accurate data. However, it does not enable one to generalize the obtained results. The comparison of the data gathered is limited as well [Babbie E., 2008, pp. 40-41, 172-173, 212-215, 342-345; Brenner B., 2009, pp. 92-107].

Although the emphasis in this research was on barriers to cross-cultural interactions, the answers collected revealed some interesting findings concerning related matters for foreign subsidiaries' operation. These findings address the following questions:

- A. The role of expatriates in solving cross-cultural problems:
  - 1. What role does an expatriate play in breaking cross-cultural barriers?
  - 2. What values should drive an expatriate to run a foreign subsidiary effectively?
  - 3. What roles do local managers play in solving cross-cultural problems?
- B. The general perception of expatriates' role and their effectiveness improvements:
  - 4. How are expatriates viewed by the host country lower-level managers and local peers?
  - 5. Does a host country point of view enrich understanding of reasons for expatriates' failures?
  - 6. How to improve Human Resources (HR) techniques concerning expatriate management with regards to running a foreign subsidiary?

The answers are given in the next paragraphs.

Expatriates can play an important role in breaking cross-cultural barriers and improving cross-cultural interactions within TNCs. The research conducted revealed a dichotomy in perceptions of the expatriates' role by their peers and subordinates. On the one hand, the expatriates were viewed as a source of cross-cultural barriers when their qualifications or motivation were insufficient, or when their real tasks on the overseas assignments were unclear. Therefore an expatriate's role as a liaison between the headquarters and the subsidiary appeared complex. On the other hand, the interviewees could also notice the positive aspects of expatriates' presence in subsidiaries. The main reason behind this was the opportunity to utilize an expatriate's knowledge [Rozkwitalska M., 2011, p. 171]. The following table summarizes the interviewees' responses to the question: *What role does an expatriate play in breaking cross-cultural barriers?*

**Table 1.** Expatriates in subsidiaries according to the opinions of participants of research on cross-cultural barriers in TNCs' foreign subsidiaries in Poland

Expatriates as a source of cross-cultural barriers in subsidiaries
<p data-bbox="251 415 1173 454"><i>Insufficient skills or motivation of expatriates as a barrier to cross-cultural interactions:</i></p> <p data-bbox="251 454 1173 772">In a French subsidiary an interviewee described some problems concerning the qualifications of the French staff on the Polish assignment. According to the respondent, the headquarters sent fewer qualified personnel to Poland than to other markets because Poland is not perceived as an attractive place on an overseas mission. Another interviewee (a subsidiary of an Anglo-Saxon TNC) claimed that expatriates do not always represent an expected level. In a Swedish subsidiary an interviewee described an expatriate's problems of understanding Polish reality. He also claimed that the expatriate didn't listen to the Polish ideas. The situation improved significantly after a Pole assumed the leadership.</p> <p data-bbox="251 772 1173 917">The motivation of expatriates can also create barriers to interpersonal interactions. Like a manager from a Portuguese subsidiary noticed, sometimes an overseas assignment to Poland is perceived by the Portuguese as a compulsion resulting from a corporate need.</p> <p data-bbox="251 946 1173 985"><i>Complex expatriates' role as a barrier to cross-cultural interactions:</i></p> <p data-bbox="251 985 1173 1188">An Italian expatriate portrayed his difficult role in the company when he was the managing director in a Polish-Italian joint venture. On the one hand, he was under pressure from the headquarters; on the other hand, the Poles – shareholders in the joint venture put pressure on him. The headquarters insisted on implementing solutions that were rejected by the Poles. At the beginning, there were frequent conflicts.</p> <p data-bbox="251 1226 1173 1323"><i>A factor that negatively affects the perception of expatriates by a host country staff, resulting in cross-cultural barriers in subsidiaries, can be the foreigner's effects-costs employment ratio:</i></p> <p data-bbox="251 1323 1173 1497">In a French subsidiary an interviewee claimed inefficient utilization of expatriates. The necessity to cover the costs of an expatriate's assignments from the host country budget was a heavy burden for the host country unit and used to be negatively perceived by a local staff. This problem was stated by a manager in a Portuguese-Polish subsidiary.</p>

## Expatriates role in breaking cross-cultural barriers in subsidiaries

*Expatriates can serve as a perfect channel via which knowledge flows to the subsidiary. It helps to develop a host country staff. It is appreciated when having completed his/her assignment, an expatriate delegates authority to the local managers:*

According to a manager in a subsidiary of a Swedish TNC, the Swedes sent high-qualified expatriates from whom the local staff could learn a lot. After implementing changes, the Swedish managers came back home leaving management in the hands of the Poles.

A similar opinion was stated by a CEO (Chief Executive Officer) in a subsidiary of an American TNC. He thought expatriates could teach a young cadre a lot and help them to acquire the required experience.

A director in a subsidiary of a Japanese TNC emphasized the competence of his Japanese superior – a person who was responsible for a global product unit before being assigned in Poland. He did acknowledge her contribution to his professional career development.

Initially, the French took on all important job positions in their subsidiary in Poland. From the beginning it was announced that the management would be delegated to the Poles later. The French kept their promise. Then they contributed new and unknown on the Polish markets work standards and business culture, which are now well-recognized as specific to the sector of the French TNC.

Similarly, in a French-Polish subsidiary established in the 90s. through an acquisition, many expatriates were initially hired in the board of directors and among the middle-level management. They used to drive Polonez cars not to be distinguished from the Poles.

From the beginning it was obvious that the management would be shifted to the Poles. After implementing the necessary changes, the expatriates returned to France.

Despite huge problems caused by a takeover of a Denmark TNC by an American investor due to inability to integrate the cultures and, as a result, a dislike of the employees to the Americans, a manger working in this subsidiary appreciated the U.S. expatriates' emphasis on cost efficiency. Evaluating his experiences with foreigners, including the expatriates, he acknowledged that all of them taught him valuable things in management.

There was a general rule in an American corporation that a host market should be run by a manager from that market. "The local president must feel himself an entrepreneur" – stated the manger of a subsidiary of this corporation. As an effect of merger, there were many expatriates in the board of directors in the Polish subsidiary. Nevertheless, it was a temporary situation, according to the interviewee.

To be an effective leader a person needs to follow values that find acceptance among the employees. Without acceptance an additional barrier to interpersonal interactions may arise. In cross-cultural settings it can affect perception of the leader and, if the leader is an expatriate, it can reinforce the stereotypes existing so far. Thus during interviews the following question was asked: *What values should drive an expatriate to run a foreign subsidiary effectively?* Table 2 summarizes the answers given by the interviewees.

**Table 2.** Values an expatriate should follow.

Values that should guide an expatriate's work
<p><i>A happy medium should be found:</i> According to the president in a subsidiary of a Swedish corporation, cultures should be mixed and values should be verified in practice. There is no universal set of values that a man should follow in a business. This point of view was shared among approximately 1/3 of the interviewees.</p>
<p><i>Corporate values should be followed:</i> Few interviewees believed that a company's values should take precedence over the national or individual values. According to this assumption, if an employee or manager has decided to enter a company, he or she needs to be guided by this company rules and principles and to adhere to them to ensure internal coherence within the TNC. The corporate culture is more important than the local national or individual cultures.</p>
<p><i>Universal values should be followed:</i> Expatriates should follow universal values. There were different opinions among the interviewees on what universal values were. Some of them pointed out the following universal business values: openness in communication, innovativeness, team work, people-orientation, natural environment protection. Another manager enumerated: an egalitarian attitude of managers, their openness, and an ability to create conducive work environment. One respondent found American business values universal, another one believed in Swedish values.</p>

Source: adapted from Rozkwitalska M., 2011, p. 249.

As depicted in table 2, two points of view can be identified: relativistic (or synergistic) and universal. The first approach suggests a necessity to meet a subsidiary staff half way and find a solution accepted by the whole company. It is relativistic because no culture (home country national, host country national or corporate) takes precedence over the other. Each time an expatriate manager must cooperate with his/her peers and subordinate to the set of

values appropriate in a given time and locale. It can produce a kind of synergy through learning process associated with a cross-cultural interaction and does not necessarily mean neglecting the corporate values system.

In the universal point of view, either a company or general values should guide an expatriate's decisions. This approach does not assume adjustment to a subsidiary expectations and its values system, rather an imposition of some set of values viewed as universal.

What seems to be extremely important in a discussion about an expatriate's values system is not a type of values system that should be followed but rather a coherence between the values declared and the actions taken. To be effective in running a subsidiary or its part a manager, regardless of being an expatriate or a host country individual, he or she needs to be authentic. Otherwise, the host country staff will be suspicious and will not trust the manager [Rozkwitalska M., 2011, pp. 196, 261]. A values system coherent with actions is crucial in building a strong and accepted corporate culture as well [Rozkwitalska M., 2011, p. 271].

The conducted research allowed answering the following question: *What roles do local managers play in solving cross-cultural problems?* This question was asked to find the mechanisms that enable to interact in cross-cultural settings effectively. The answers differed from one another, however, there was a common understanding of the roles a local manager should play. These roles are a liaison between cultures<sup>4</sup> who is able to improve the cross-cultural interactions and an entrepreneur who actively builds his/her subsidiary/unit position within the company<sup>5</sup>. To be effective in these roles a local manager needs to develop his/her potential and competence, including the cross-cultural competence [Rozkwitalska M., 2011, pp. 197, 206, 210].

The interviewees supplied interesting observations about expatriates, which helps answer the following question: *How are expatriates viewed by the host country lower-level managers and local peers?* An expatriate's role in solving cross-cultural problems has been discussed above (see table 1). However, additional remarks can be drawn. A subsidiary staff expects from an expatriate

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<sup>4</sup> Experts in International Human Resource Management recommend a necessity to build among middle-level managers an ability to take a role of a liaison between the expatriates and the local staff [see e.g. Schroeder J., p. 105].

<sup>5</sup> Due to a strong competition between subsidiaries within a corporate system, a subsidiary needs to be proactive in managing its development. It must aim at increasing its role in a corporate structure. It guarantees a long-term existence within a TNC and affects fruitfully the self-perception of a subsidiary's staff. This can further contribute to improvements of cross-cultural interactions within and outside the subsidiary. Regardless of a role assigned to a subsidiary, it should look for greater responsibility. It means, e.g. taking more complex tasks, development of unique resources, know-how, new ideas or being cost-efficient [see Rozkwitalska M., 2011, p. 269].

at least basic knowledge of the subsidiary's country law, economy and culture. Otherwise, the cooperation can meet hurdles. For instance, there was a widely shared misunderstanding among foreigners on the importance of accounting procedures in the Polish financial law system as well as specific culture regarding to this activity (e.g. the status and methods of fiscal audit in Poland and a fear of Polish managers involved in it). A different approach of the expatriates resulted in negligence of accounting activity and a feeling of being depreciated among the Polish accountants [Rozkwitalska M., 2011, pp. 240-241].

Another problem refers to a necessity of speaking the local language by an expatriate. This issue is broadly discussed in the field literature. The authors suggest that an expatriate should be able to communicate using the host country language [see e.g. Hofstede G., Hofstede G.J., 2007, p. 373; Lewis R.D., 2006, p. 10; Mole J., 2003, p. 12]. It is an element of skills that creates cross-cultural competence [Rozkwitalska M., 2011, p. 95]. Nevertheless, the interviewees did not share the common opinion in this area. Approximately 1/3 of them agreed that an expatriate should speak the local language. According to an interviewee in a subsidiary of a French TNC:

“During a meeting 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.” [Rozkwitalska M., 2011, p. 175].

The interviewees pointed out that speaking the local language by an expatriate increases his/her effectiveness because it helps to communicate and motivate the lower-level staff, can be a necessity in some sectors in Poland since many officials do not speak foreign languages, it helps to understand the local culture and reduces translation errors [Rozkwitalska M., 2011, pp. 252-253]. Others remarked a lack of necessity to communicate in the local language with an expatriate because working in a TNC means accepting a fact that communication is in a functional foreign language and, as another person stated, it can help to protect a subsidiary interest by excluding an expatriate from some sensitive information [Rozkwitalska M., 2011, p. 252].

Generally, an expatriate perception by a host country staff depends on his/her performance and his/her ability and willingness to cooperate with a subsidiary's managers and employees. An expatriate should comprehend and respect local differences and be able to adapt to them. He or she must be an effective spokesperson of his/her subsidiary too<sup>6</sup>. Then the local staff identifies with him/her regardless of nationality.

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<sup>6</sup> It is sometimes difficult to understand and accept by a local staff that the corporate interest takes precedence over a subsidiary interest. Some individuals do not understand the priorities of a global company. The pressure of global efficiency can be a burden for a subsidiary and reduce its efficiency [Rozkwitalska M., 2011, p. 247].



There is ample literature on the reasons for expatriates' failures on overseas assignments. Such reasons differ depending on culture. For example, among sources of American expatriates' failures researchers mention [Scullion H., Collings D., 2006, pp. 59-86]:

- Inability of a spouse to adjust to the host country,
- Inability of an expatriate manager to adjust to the host country,
- Family problems,
- Personal and emotional immaturity of an expatriate,
- Inability to meet increased responsibility.

The research conducted by the author revealed some additional reasons for expatriates' failures. Therefore, the answer to the question: *Does a host country point of view enrich understanding of reasons for expatriates' failures?*, is 'yes, it does'. Some of the identified problems confirmed the reasons examined by the other authors. Thus the reasons for expatriates' failures in the analyzed subsidiaries were [Rozkwitalska M., 2011, p. 207]:

- Weak motivation and insufficient qualifications (problems with recruitment of appropriate candidates on overseas assignments),
- High costs of expatriates employment that subsidiaries are charged,
- Ambiguity of an expatriate's responsibilities,
- Difficulties in fulfilling a liaison role.

Basing on empirical findings, some recommendations to improve expatriates career management can be formulated. They are a direct answer to the question stated above: *How to improve HR techniques concerning expatriate management with regards to running a foreign subsidiary?*

First of all, an expatriate should have higher skills than the host country managers, serve as a channel in knowledge transfer to a foreign subsidiary and develop the local cadre. He or she should understand the host country specific environmental requirements, be open to cooperation with the local staff. Then, an expatriate is accepted by the subsidiary's employees. An expatriate should also have high motivation to work in a given host country, otherwise he/she will not be effective and successful. Corporate headquarters need clear communication with their subsidiary's staff in terms of what tasks and responsibilities an expatriate has, and how important he/she is. An ambiguity of an expatriate's role can cause suspicion among the host country cadre, can create conflicts and affect negatively an expatriate's performance appraisal. Subsequently, an expatriate should train his or her successor from among the local personnel. After some period of time, when, the authority is delegated to the host country manager, the local staff feels motivated. It improves communication with the lower-level employees and enhances their morale:

"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." [quotations from the interviews, see Rozkwitalska M., 2011, p. 171].

Next, as some interviewees pointed out, there can be some resistance among the host country employees to cover the costs of expatriate assignments from the subsidiary's budget. They can also feel unmotivated when there are significant disproportions between the expatriates and the host employees compensation level. To reduce these sources of resistance, the headquarters should increase the subsidiary budget by means of a financial transfer to cover some costs of an expatriate assignment<sup>7</sup>. Finally, the corporate headquarters' managers must be aware of cross-cultural differences that will probably affect the effectiveness of expatriates and their ability to realize a task according to the headquarters' requirements and expectations. Thus there is a necessity of communication between the headquarters and its subsidiary via an expatriate. He or she must be a liaison [Rozkwitalska M., 2011, pp. 207-208].

### 3. Conclusions

The question: *Who should run a foreign subsidiary – an expatriate or a host country manager?* was asked during the research. The opinions addressing this question were almost equally divided among the interviewees. Almost a half of them preferred a Pole or someone well-acquainted with the Polish peculiar character (i.e. the law, tasks environment, mentality etc.). As one of the interviewees said:

"There are sectors where CEO's nationality is not important. Nonetheless, there are sectors that require in-depth understanding of the local specifics." [Rozkwitalska M., 2011, p. 174]

The interviewees also remarked that a Pole in the position of CEO can get in touch with the lower-level staff easier, which improves their morale [Rozkwitalska M., 2011, p. 174].

The research conducted suggests that the nationality of a subsidiary's CEO seems to be less important. In some cases an expatriate seems to be in a favorable position, e.g. when there is a significant communication barrier, like in a subsidiary of a Japanese TNC where a Japanese expatriate could cooperate

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<sup>7</sup> There can be observed some cultural differences among countries with regards to the acceptance of differences in compensation level between various job positions within a company. Other authors also suggest that TNCs face difficulties in finding appropriate candidates for overseas assignments with well-developed cross-cultural skills. In such circumstances financial incentives can be important to force managers to work abroad. These can reversely affect attitudes of a host country staff to an expatriate [see Schroeder J., 2010, p. 92; Murdoch A., 1999, p. 177].

with the headquarters easier [Rozkwitalska M., 2011, p. 249]. Another time, a host country manager seems to be a better option, e.g. if there are significant differences between the local markets that requires in-depth knowledge of the host country specific. Whichever option is chosen, a subsidiary's CEO and middle-level managers should be:

- a liaison – a bridge between cultures,
- an entrepreneur who actively develops position of his/her subsidiary,
- a spokesperson who cares about a subsidiary staff and invests in their skills.

Managers running subsidiaries need to be authentic in their roles, act according to the values declared, and willing to cooperate with the host country employees. They should understand the local specifics.

Another notion must be made with regards to the issues discussed above. The method of sample selection used in this research does not enable to make broad generalizations. Additional research should be conducted to support theses stated in this article. The majority of the interviewees were Poles, therefore, there is a risk their opinions are culture-rooted, which also limits generalizations. However, the field scrutinized is culture-sensitive and thus in many cases it is difficult to make generalizations.

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## Abstract

*There is ample literature on expatriate management that presents a parent company's point of view on this issue. A consideration of subsidiary management from the local perspective is missing. Relationships with foreigners (including expatriates) are cross-cultural interactions and their effectiveness is affected by cultural factors. Therefore, in this article there are questions that need to be answered:*

1. *What role does an expatriate play in breaking cross-cultural barriers?*
2. *What values should drive an expatriate to run a foreign subsidiary effectively?*
3. *What roles do local managers play in solving cross-cultural problems?*

*There are several additional questions that should be addressed. The answers can provide understanding of the general perception of expatriates by subsidiaries' staff and what should be done to improve human resources techniques as well:*

1. *How are expatriates viewed by the host country lower-level managers and local peers?*
2. *Does a host country point of view enrich understanding of reasons for expatriates' failures?*
3. *How to improve HR techniques concerning expatriate management with regards to running a foreign subsidiary?*

*The article tries to address questions mentioned above.*