

# **The Right Mix**

***EXPATRIATE EMPLOYEES WHO ARE "AT HOME"  
IN THE HOST COUNTRY: WHICH CULTURE  
SHOULD DRIVE THEIR ACTIONS?***



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## EXECUTIVE SUMMARY

Cultural adaptability has often been cited as a vital factor for the success of expatriate employees. Most research thus far assumes the expatriates to be unfamiliar with the host culture and focuses on how to train them. There has been little research regarding expatriates who are “fluent” in both home and host country cultures, and surprisingly little on the degree to which expatriates in this situation should use the home country’s culture or the host country’s culture to determine their actions.

**This paper explores under which contexts and the extent to which “bicultural expatriates” should use the home or host culture as a guiding light for their organizational decisions. The paper divides organizational decisions into two contexts: social and managerial. I argue that under social contexts, the expatriate employee should behave almost always according to the culture of the host country; this allows the expatriate to reap gains from “social capital.” Under managerial contexts, the expatriate must find a “creative tension” between the home culture and host culture; the balance between the two managerial styles should reinforce a necessary level of standardization for a global company without alienating the host work force.**

Expatriate employees are vital to the success of any international corporation

**Background: *Who are expatriates and why do they matter?***

Expatriate employees, or home country nationals as they are sometimes called, are employees working abroad for a company of their national origin. An example of an expatriate is a worker from the U.S. working at an IBM office in Mexico. Expatriate employees generally stay abroad for a single term of 3-5 years<sup>1</sup>.

Expatriate employees are essential to the international corporation\* for many reasons. As the global marketplace becomes more and more important to corporations<sup>2</sup>, effective expatriate employees are essential to help the corporation expand into and take advantage of that market. It is often necessary for an employee with experience in the home headquarters to travel abroad to communicate the company's vision and style; this is doubly important when the success of the business relies on a particular organizational culture. When Federal Express expanded to Russia, it was essential to communicate to the workers the utmost necessity of on-time delivery. The Russian business culture is much more lax

\* Unless specifically noted, throughout this document "international corporation" will refer to any organization with offices abroad, indiscriminate of its international evolution (i.e. MNC, global).

than the "time is money" American system. To pound the idea of expedited work to the Russians, Federal Express sent experienced American employees from the Memphis headquarters to show them how the company must operate<sup>3</sup>. Another reason expatriate employees are vital is that they often fill important positions in the host countries (e.g., joint venture negotiations, subsidiary management, new market development)<sup>4</sup> or fill jobs that do not yet exist in that country (e.g. new technologies). One more reason companies send an expatriate employee instead of relying solely on the foreign country's native workforce is to train that expatriate. A growing philosophy in the business community is that since more and more businesses are globalizing, all top leaders in the organization should have some international experience<sup>5</sup>. A successful expatriate should export the organizational culture, diversify the host workforce, and increase cross-border productivity.

Expatriate performance is a crucial ingredient for the profitability of multinational corporations; they are also a huge cost. Expatriate expenses- recruitment, selection, training, compensation, and repatriation<sup>1</sup>- are staggering. "Companies

invest an average of \$1.3 million for each expatriate during the course of a typical three-year assignment,” says Bill Sheridan, the senior director of the National Foreign Trade Council<sup>6</sup>. Another statistic: expatriate employees are on average 5 times costlier to the organization than are domestic employees<sup>1</sup>. Therefore, not only is expatriate success vital to an international corporation, but on a simple cost basis, expatriate turnover should be avoided even more than normal employee turnover. Unfortunately, expatriate failure is a business epidemic- between 40% and 50% of all expatriate assignments fail<sup>7</sup>.

**What We Know: *Expatriates should understand the host culture***

Given the importance of expatriate employees and their high failure rate, the next logical question is “How to increase expatriate success?”. There are many reasons expatriates fail more than their domestic counterparts. Some of them include: spousal problems<sup>8</sup> (especially given that the traveling spouse would be likely required to give up his or her career), family problems<sup>9</sup> (only half of international corporations have help

<p>The chief factor for expatriate success is cross-cultural adaptability</p>	<p>programs for families of expatriates<sup>1</sup>), inadequate selection processes,<sup>10</sup> training (only half are given specific training before taking their overseas assignment<sup>1</sup>), and lack of communication between the expatriate and home office<sup>11</sup> (resulting in feelings of alienation- expatriates often feel their overseas assignment hurts their career since they are out of the home office loop).</p> <p>Different cultures produce not only different values and behaviors, but different attitudes toward working as well<sup>12</sup>. This different outlook is the main difference an expatriate encounters in the host country. It is not surprising, then, that inability to adapt to the host culture is the number one reason for expatriate failure. In interviews with 72 human resource managers responsible for expatriates, cross-cultural adaptability was considered the most integral to expatriate success<sup>13</sup>. According to the <i>Academy of Management Review</i>, "The inability of expatriate managers to adjust to the host culture's social and business environment is costly in terms of management performance, productivity in the overseas operation, client relations, and operations efficiency<sup>13</sup>." Successful expatriates must not only understand the host</p>
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culture, but be able to use that understanding to adapt their communication style to that culture<sup>7</sup>. This ability to function in the host culture applies not just to the expatriate employee, but to the employee's family as well. A family that cannot adjust to the new environment, as mentioned above, very often indirectly causes the failure of the expatriate. Some argue that family problems are the biggest reason for expatriate turnover<sup>1</sup>- but this stems from the family's inability to cross-culturally adapt.

**The Problem: *But how much home and how much host?***

We now know that successful expatriate employees (and their families) must understand both the home and host culture. An American expatriate who goes to manage a branch in Scandinavia and tries to motivate the Scandinavian employees through individual rewards will not get very far. There are, of course, infinite examples such as this<sup>14</sup>. There has been countless research done on how to help expatriates understand and work in their host country- from in-depth Hofstede analyses<sup>14</sup> to overseas training to seminars- it has all been covered. But what has not been sufficiently addressed is the

<p>But for expatriates who <i>have</i> cross-cultural adaptability, to what extent should they operate under the home culture and to what extent the host culture?</p>	<p>degree to which these expatriates, once they understand the host country's culture, should operate under that culture.</p> <p>A more broader topic, the degree to which organizations should adapt their global strategy to home and host cultures- i.e. thinking locally versus thinking globally- has been extensively researched. Before considering the specific question of how expatriate employees should act, we will first take a brief look at how businesses currently see the problem of operating across cultures in general. "Recognizing the diversity of local markets and seeing them as a source of opportunity and strength, while at the same time pushing for a strategic consistency across countries seems to be a conundrum global companies face today<sup>15</sup>," says Dr. Herbert Paul, Professor of International Management at the University of Applied Sciences in Mainz, Germany. The question- to what degree organizations should "think global" or "think local" is one of the biggest debates in the business world right now. There is no magic balance that can be prescribed for all organizations. Each situation must be judged according to a myriad of variables, such as the specific nations and cultures involved, the industry, the global strategy of the corporation,</p>
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Hypothesis:  
expatriates should  
operate under some  
mix of home and  
host culture

the strength of the globalization drivers for the corporation<sup>16</sup>, and the nations' and corporation's competitive advantage<sup>17</sup>. However, any international corporation's strategy must to some extent standardize based upon the home culture and to some extent localize based upon the host culture; it must take into account both global and local aspects<sup>15</sup>, whether it "thinks global and acts local" or "thinks local and acts global" or some balance in between. We can assume then, that just as an a corporation's overall global strategy must contain some elements of the home culture and some elements of the host cultures, that the same applies for an expatriate, who can be considered the corporation's visionary ambassador. In other words, in some situations expatriates must "think globally"- focusing on a standard approach (coming from the home office)- and in others they must "think locally"- conforming their behavior and decisions to the host culture's norms.

From hereon out, this paper solely address expatriates who are as comfortable in the host country as in the home, who understand all of the different cultural subtleties that differentiate them. For simplicity's sake, we will call these expatriates "bicultural expatriates." An example of a bicultural

expatriate is a Mexican-American who leaves IBM in the USA to work for IBM in Mexico. He or she has spent significant time in both Mexico and the USA, and is fluent in both the two languages *and* the two cultures. He or she can perform under either macro culture's "operating system"<sup>1</sup>- for example, in the United States he or she can speak in English, understand and fit in all social situations, work in an individualistic work environment, value punctuality, etc.; and in Mexico he or she can speak Spanish, understand and fit in all social situations, work in a more collectivist work environment, not value punctuality, etc.

But what is the  
"right mix"?

An expatriate's organizational culture (shaped by the home culture) is inherently at odds with certain aspects of the host culture. Bicultural expatriates understand the both cultures; they can operate under either at will. But to maximize the effectiveness of a bicultural expatriate in an international corporation, and given the myriad of possible situations, is it possible to find a "*right mix*" that a bicultural expatriate can use as a general framework for guiding their decision? To try and answer this question, we divide organizational situations into two contexts: social and managerial.

**Context 1: *Social situations***

We will define a social situation within an organization as anything outside direct managerial power that affects the organization's success; in other words, it is the "water-cooler" aspect of an organization. Just as an organization's workforce can be described as "human capital," so too can its social situations be described by "social capital." Social capital is "the features of social organizations such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit<sup>18</sup>;" it allows individuals "to secure benefits by virtue of membership in social networks<sup>19</sup>." It's the "good ol' boy" approach, the reason "who you know" is so often as important as "what you know." According to Wayne Baker of the University of Michigan Business School, "social capital bonds people to your firm. It makes them want to come to work every day and stay with your company over time. It creates a high-performance culture where people can meet their needs: a sense of belonging, mastery, contribution to something bigger than themselves<sup>20</sup>." The more social capital managers have, the more support they receive from their employees and the more successful they will be in leading an

effective team<sup>1</sup>.

One of the main reasons home countries send out expatriates is because they know they can trust them- the expatriates built up social capital with the home office. However, for expatriates to be successful “linking pin” managers, they must be trusted in the host country as well. Since most expatriates only serve terms of 3-5 years, building this trust can be difficult- especially when the expatriate acts differently than the rest of the organization. It is natural for people to be more at ease with someone to whom they relate; common sense dictates that an expatriate who comes to the host office and acts contrary to the host culture will have a much harder time building social capital than one who speaks the same language and slang, tells the same jokes, follows the same sports, etc. And just because it is harder to gain social capital across cultures does not mean it is not just as important in the international realm as it is in the domestic<sup>21</sup>. Kostova and Roth (2003) note the importance of social capital in developing cross-border activities for international corporations<sup>22</sup>. They argue that the degree of social capital needed in an international corporation correlates to the degree the

Under almost all social situations, bicultural expatriates should act according to the host culture

corporation and its host divisions are interdependent. Yet what is true for all international corporations is that some degree of social capital between home and host is required. We can therefore deduce that expatriates should seek social capital and trust with the host employees, and, given the short tenure of expatriates, the best way to gain that social capital is for expatriates to completely subvert their social behavior to that of the host country.

On the face of it, there appear to be no drawbacks to social capital. Portes and Landolt (1996), however, point out three downsides: exclusion of outsiders, downward leveling pressures, and the hampering of business initiative<sup>23</sup>. Exclusion of outsiders- or the hampering of diversity- occurs when social ties of some restrict others; as an example Portes and Landolt cite how it is hard for non-Koreans to enter the produce business in some East Coast cities since the Koreans only share their contacts, etc., with other Koreans. This however does not affect bicultural expatriates- since they can fit in with the host culture, if this exclusion of outsiders does occur, they will be included. Downward leveling pressures occur when social networks produce "public bads," such the

mafia and youth gangs. Again, this does not affect expatriates. The final downside to social capital that Portes and Landolt list is the hampering of business initiative. If people within a business conform their thought processes to everyone else, productivity will be lost. Strong social capital can also undermine business initiatives, they argue, since it obligates the successful to spread their wealth with their unsuccessful family and friends. Yet again, this does not affect social capital as it relates to bicultural expatriates: I argue that bicultural expatriates should conform their *social* behavior to that of the host employees, not their *managerial* behavior (which indeed can, as will be touched on in the next section, profit from diversity). After all, liking the same soccer teams does not make you less productive. Neither will social ties inhibit expatriates- after all, they will be on the receiving end of contacts, etc.

There will of course be exceptions; sometimes a bicultural expatriate should act according to the home culture- for example, a USA-based firm may wish to not only globalize its products and profits, but its philosophy as well. So, for example, it could be argued that a female bicultural expatriate

to Saudi Arabia should *not* wear a veil and *should* treat her male counterparts as equals outside of the office- this is clearly operating contrary to the host social culture, but may be deemed necessary. However, in most situations we can generalize that bicultural expatriates should tailor their social behavior to the host culture in order to gain the very real benefits of social capital .

**Context 2: *Managerial situations***

We have concluded that a bicultural expatriate should behave according to the host culture in social situations. Given our assumption that overall, an expatriate should find a mix between home and host culture, we might expect that expatriates should act according to the home culture when it comes to running or working in the business abroad. The research thus far is contradictory: on one hand, some research argues that expatriate employees should manage according to the home culture, in order to maintain strategic cohesion and diversify the host management; on the other hand, some research argues that the expatriates should

manage according to the host culture, as this will lead to a more productive foreign work force since they are more efficient operating under their cultural norms. These two arguments are explored below:

*Argument 1: Expatriates should manage according to the home culture*

One of an expatriate's purposes is to export the home organizational culture<sup>1</sup>. The importance of this varies from case to case; in some contexts, such as the Federal Express in Russia example given above, it is extremely important, while in others it is less so. So, depending on the circumstances, it might be very important for a bicultural expatriate to manage according to home standards. Others argue that it is easier for a company to expand globally and reach a global mindset if the corporation has a history of centralization and standardization<sup>15</sup>; this too implies that expatriates should work according to the home culture.

Expatriates who manage within a home culture context in the host country are natural diversifying agents. A pluralistic workforce with different approaches to problem solving has



<p>Arguments for managing according to the home culture:</p> <p>(1) the need to export and standardize the organizational culture</p> <p>(2) the benefits gained from a pluralistic management team</p>	<p>been proven to increase knowledge of different markets, innovation, and productivity<sup>1</sup>. Natural problems that arise when different people try to work together are outweighed by the gains from the comprehensiveness of heterogeneous decision making<sup>24</sup>. According to Gilbert and Ivancevich (2000), "Managing diversity can enhance revenues. Diversity has been associated with greater and more creative alternatives for products and higher quality ideas, primarily from the injection and resolution of opposing viewpoints<sup>25</sup>." The two arguments for managing according to home culture are the need to export and standardize the home organizational structure and the benefits from a pluralistic management team.</p> <p><i>Argument 2: Expatriates should manage according to the host culture</i></p> <p>National culture is a central organizing principle of employees' understanding of work. According to a study by Newman and Nollen (1996), "differences in national cultures call for differences in management practices<sup>26</sup>"- thus expatriates should adapt their managerial styles to that of the host culture. Their research found that international corporations whose</p>
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managers adapted their style to that of the host country produced higher financial performance. Newman and Nollen used Hofstede's national culture variables<sup>14</sup> and corresponding management practices to measure their conclusions. Their results are listed below:

In high power distance countries, less participative work units will be higher performing than more participative work units (where employees work with their boss), and vice versa. For example, participative management works well in U.S. but not in Mexico.

In high uncertainty avoidance countries, work units with well-defined rules and direction will be higher performing than units in which rules are less-defined, although not necessarily vice versa. So, a U.S. firms who leave the French division under a highly hierarchical structure will be more successful than a U.S. firm who imposes a U.S. styled, less-hierarchical structure.

In individualistic countries, work units should emphasize individual responsibility, and vice versa for collectivist countries. For example, in a study it was found that in the U.S. (high individualism) individually-based trained led to improved performance while in China (high collectivism) group-based trained led to improved performance.

<p>Arguments for managing according to the host culture: (1) studies show that business performance is enhanced when management is adapted to the local (host) culture</p>	<p><u>Masculine</u> countries value achievement and reward personal success financially (U.S., Japan, and Germany) while <u>feminine</u> cultures value affiliation and seek higher quality interpersonal relationships (Scandinavian countries). For example, in masculine countries, work units with more merit-based reward practices will be higher performing; in feminine countries, work units with less merit-based reward practices will be higher performing.</p> <p><u>Short-term</u> countries such as the U.S. had higher performance when they stressed “quick fixes” and had less employment security, while <u>long-term</u> countries such as Japan were found to have higher performance when long-term employment was guaranteed.</p> <p>These results present the strongest case that expatriate employees should manage according to the host culture; according to Newman and Nollen: “business performance is better when management practices are congruent with national culture... they are more profitable... management practices should be adapted to the local culture to be most effective<sup>26</sup>.”</p> <p>But Newman and Nollen fail to take into account the importance of standardization for global strategy and the</p>
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productivity losses that are incurred from a homogenous management team (as would be the case if the only possibly different thinker- the expatriate- managed according to the host norms). We then conclude that expatriates must strike a balance between the home and host culture in their managerial approaches.

For international corporations who wish to transform into successful global companies, we know that they must be flexible and value “creative destruction” and diverse management<sup>1</sup>. Bicultural expatriates, who flexibly adjust their managerial styles between home and host culture, can help the corporation achieve this goal. This idea is not as far-fetched as it first sounds. As Paul says for reconciling globalizing and localizing forces<sup>15</sup>, reaching a “creative tension<sup>15</sup>” between the two approaches to managerial styles forces the expatriate to move beyond the old paradigm and create innovative solutions.

<p>Bicultural expatriate employees should act according to the host culture under social situations; under managerial positions they should find a creative balance between acting under the host culture and acting under the home culture</p>	<p><b>Conclusion: "The Right Mix"</b></p> <p>Above, we hypothesized that, just as international corporations strike a balance between acting according to a standard home strategy and localizing, so too must an expatriate on one hand "think globally" and on the other "think locally." After studying an expatriate's experience in the host organization under two contexts (social and managerial), we find this hypothesis to be true.</p> <p>There is no "perfect mix" that can be prescribed for all situations; however, there is a "right mix" that can bicultural expatriates can use as a general framework in addressing how they should operate in the host office. The right mix: in almost all social situations, they should behave according to the host culture; in managerial situations, they should find a creative, specific mix between home and host cultures.,</p>
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