Host-Country National Expatriates

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Abstract: Discussions regarding managers in overseas subsidiaries often center around only two options: (a) sending someone from the parent country (a parent-country national expatriate, or P-CONE), or (b) using a local resource (a host-country national). The conventional wisdom is for a parent company to send a P-CONE when an overseas subsidiary is in the initial start-up phase, and to eventually promote a local host-country national. However, this paper introduces a case where headquarters (c) hired a local resource (a host-country national expatriate, or H-CONE) and sent that person to the host country, and this was a superior solution to the other two options for externalizing local issues and developing a business based on a relationship with the parent country. Exchange students from other parts of Asia are currently increasing in Japan, as are exchange students being hired by Japanese companies. For Japanese companies expanding in Asia, this third option is becoming more of a reality. A new human resource strategy needs to be developed that breaks away from only the dual options of (a) and (b) and includes (c).

Keywords: parent-country national expatriate (P-CONE), host-country national, host-country national expatriate (H-CONE)
Introduction

The role of expatriate managers in managing the local subsidiaries of multinational corporations is said to be important for the performance of the company (Black, Morrison, & Gregersen, 1999; Delios & Björkman, 2000). In addition, Japanese companies have been noted as having a strong tendency to control local subsidiaries, using employees sent from the parent country (Kopp, 1994; Oki, 2013; Peterson, Sargent, Napier, & Shim, 1996; Shiraki, 2006).

However, sending employees to overseas subsidiaries may result in “expatriate failure” when the expatriate employees or their family members do not adapt well to foreign cultures and must return home before the end of their assignment (Collings, Scullion, & Morley, 2007; Tung, 1981, 1982, 1987). Thus, it has been said that using expatriates sent from the parent country as managers of overseas subsidiaries in the initial start-up phase and then later using managers promoted from host-country nationals is desirable (Evans, Pucik, & Barsoux, 2002; Furusawa, 2008). It is pointed out that reasons for promoting host-country nationals are to get rid of the image of being “parent country-centric” and build good relationships with local governments and local companies, while being able to hire and keep even better employees (Furusawa, 2008).

It has been implicitly assumed that the management of local subsidiaries will come from either (a) sending someone from the parent country (a parent-country national expatriate, or P-CONE) or (b) using a local resource (a host-country national). In contrast with these two options, this paper focuses on a third option that involves headquarters (c) hiring a local resource (a host-country national expatriate, or H-CONE) in the parent country and sending that person to the host country. These resources differ from immigrants, self-initiated expatriates, inpatriates, short-term engagements, virtual engagements and so on (Briscoe, Schuler, & Tarique, 2011;
Inkson, Arthur, Pringle, & Barry, 1997; Kim, 2013; Suutari & Brewster, 2000).¹

Recent years have seen many exchange students flow into Japan from other parts of Asia, as well as an increasing number of foreign exchange students hired by Japanese companies. For Japanese companies expanding in other parts of Asia, the third option of H-CONEs, or foreign exchange students hired in Japan and sent to their country of origin, has already become a realistic one. This paper uses the case of an H-CONE to compare and summarize the advantages of H-CONEs over traditional expatriates and host-country nationals from human resource perspective. If a company is able to use this type of resource, they may expect smoother overseas operations while avoiding problems with a lack of home-country employees available for expatriation. This is particularly important for small and medium-sized enterprises (SMEs) that lack such a resource pool in the parent country (Collings et al., 2007; Hamamatsu, 2016a).

Methods

Out of an awareness of the aforementioned problems, this paper studies the case of an SME, Company A, which hired a foreigner and

¹ Research to date has noted the option of “boomerang” resources (Briscoe et al., 2011) that are primarily immigrants hired by the parent company who return to their country of origin. Briscoe et al. (2011), in giving boomerangs as one of up 21 different options, defined them thus: “these are individuals who have emigrated and hired by firms in the firm’s parent country to return to their original homes or are foreigners with experience in the firm’s parent country, who have returned to their original homes and now hired to work in foreign (to the firm, but home to the individual) country.” (Briscoe et al., 2011, p. 211). However, the attributes of these human resources are not clear from the term “boomerangs”. Thus, the term “host-country national expatriate (H-CONE)” is used herein, as it is clear that these are employees hired by a headquarters company and sent to a local subsidiary.
sent that person to an overseas site. Multiple interviews were conducted with the president of Company A in Japan, and X, a Chinese general manager of Company A’s Chinese subsidiary, Company α. After being hired in Japan, X was sent to China, where the company was ramping up production. This paper focuses on X’s activities there, and the involvement of the president of the headquarters company.

Data was collected via the following process. First, the president of Company A was interviewed on November 24, 2009. Afterward, a visit was made to the Chinese subsidiary, Company α, on December 1, 2009, to conduct interviews with X. Later, in 2010 and 2011, a follow-up was done with the president of Company A to confirm the content of the prior interview and discuss subsequent events.

Case Study

Outline of overseas operation

Founded in 1964, Company A is an SME with twelve employees that develops, manufactures, and sells rubber and plastic products for the automotive industry. Consolidated sales, including an overseas subsidiary, were 440 million Japanese yen in the fiscal year 2008.

In 1999, Company A established Company α, a manufacturing subsidiary in Shanghai, China, with Company B (a forty-person Japanese company, to which Company A outsourced production). This was a result of Company B asking Company A to procure funding as Company B started up a production plant in Shanghai. During the two years after the company was established, Company B’s president resided in China and took over management. However, using interpreters meant he could not communicate well with those on the production floor, making a
production ramp-up impossible. The company generated an annual loss of 15 million yen, with cumulative losses totaling hundreds of millions of yen. Soon Company B in Japan stood on shaky ground (later falling into bankruptcy), and the Company B president returned to Japan. From the time Company α was established, Company A had a majority stake, but the company continued to increase its share to cover losses. By 2001 Company α had become a wholly-owned subsidiary of Company A.

Restoring production at Company α and improving its productivity were top priorities for Company A. Company A hired X, a Chinese national, and sent X to China. As a general manager, X solved these challenges. At the time Company α was established, it had 43 employees, growing to 140 by 2008. Eighty percent of Company α’s sales come from automotive parts, under a division of labor whereby products prototyped and developed in Japan by Company A were mass produced in China by Company α. Sales of Company α in 2009 were approximately 300 million yen, or three-fourths of Company A’s total sales.

Profile of the host-country national expatriate

General manager X studied economics at a Chinese university, and worked as a government technical officer for a year and a half. X then joined a major Korean electronics company in Suzhou, working to set up their factory there, installing and furnishing the factory, among other tasks. After working there for three years, X decided to fulfill a longtime dream to study in Japan. After a year and a half of studying Japanese at a Japanese language school, X began studying at a Waseda University graduate school, subsequently joining an SME that produces rubber hoses and other products, after working there part time while at school. This company has a factory in Qingdao, China, giving X international trading experience in the company’s overseas business unit. X moved on to two other companies before
joining Company A in 2002. During about one year X was responsible for the company’s rubber business in Japan, gaining an understanding of Company α’s current situation while traveling to Shanghai about once per month.

Activities of the host-country national expatriate

Prior to X’s expatriation, in 2002, Company α had forty employees, with a Japanese general manager, two Japanese deputy general managers, and one Chinese manager. Later, X was sent to Company α as the general manager in 2003.

At the time of this expatriation, X investigated why the company had a high defect rate, and why productivity was low. At the time, not only was the plant poorly organized, employees did not show up to work on time, smoked cigarettes during work hours, and the company was not able to manage employee attendance. The plant operated 24 hours per day, though at night, when there was only one manager, duties are often neglected by employees sleeping in the cafeteria, smoking cigarettes, and so on. This showed why night-time productivity was particularly low. Further, it was not just the production floor employees, but the Japanese deputy general managers who showed up late to work and smoked cigarettes during work times.

To change these practices, three initiatives were started for the production floor employees and managers.

First, penalties were put in place for negligence during work times (leaving the production floor to smoke cigarettes, taking off safety shoes, etc.). A penalty of ten Chinese yuan was assessed for such actions during daytime work hours. Moreover, employees were fired for such actions during night-time work hours. Many employees felt the company would not go so far as to fire an employee, despite receiving several warnings. However, after creating these rules, X was strict in their enforcement, appearing at the company at 2:00 in the
morning without notice, to check nonperformance on the production floor, and releasing such employees. In addition, X strictly enforced the rules with managers, and even a local manager of international trading section (an important position among the company’s managers) was let go due to continuing disobedience to the rules. After about six months of strict enforcement, nonperformance disappeared, even when checking the night-time production floor without notice. As a result, operating rates and productivity were improved.

Second, X created work standards to improve productivity, and let managers diligently monitor them. For example, on operation process that had previously taken 30 kg of raw rubber material to create four products, work standards allowed 14 to be created by more careful operation of machinery.

Third, X restructured the wage system. Up until then, wages were paid to each employee based on their hiring time, but X implemented performance wages based on work standards. Moreover, X decided that monthly bonuses were paid in addition to base salaries, in a simplified calculation method. According to it, monthly bonuses were multiplied by 1.2, 1.3, etc. times than normal ones, based on a point system considering such things as daily productivity, defect rates, and work attitude.

These initiatives arose from employees’ open dissatisfaction with the previous rules. From the beginning, X communicated with those on the production floor, explaining the company’s situation, and listening to opinions. Employees on the production floor unhesitatingly expressed dissatisfaction to the general manager, especially with the salary (the third point above), questioning why “other employees receive higher wages for doing the same work”. In actuality, Company α did not have unified wages for new employees, and in addition to not having consistent standards, the Chinese employees shared their salary amounts with one another. Prior to X’s
expatriation to the company, there was a penalty for disclosing one’s salary to others, though this penalty did not work, as it was never clear who was disclosing it. X assumed that employees would share their salary information, and revised the salary structure to a points-based system that was clear to all.

With these initiatives demanding different work attitudes than before, production floor employees at first rebelled against them. However, X continuously explained to both them and managers that if employees did not make efforts, the business could not continue in China. In less than one year of X becoming the general manager, the company achieved its productivity goal. X’s patient communication engendered relationships of trust with employees, and many of them have since remained in the company, proactively working on holidays and at night. Further, the company obtained an international quality standard ISO9000, reducing costs while improving quality.

**Autonomies of the subsidiary**

After successfully implementing the above three initiatives, the organization reduced expatriations and visits from Japan. Prior to X becoming the general manager, the Company A president and quality managers frequently visited Company α. After X became the general manager and the management gained firm footing, X proposed to the Company A president that costs could be reduced with fewer expatriations and visits, and that more Japanese managers caused a decrease in employee motivation. Fewer visits were made from Japan, and the number of expatriate Japanese reduced. In 2011 the Company A president visited only two or three times, and there were no visits from other employees. Without Japanese expatriates, X, who was sent from Japan, was able to run the business with autonomy.

In addition to local autonomy, Company α made some proposals for
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expanding business of the headquarters in Japan, and these proposals were implemented. Expanding customers from their current base of Japanese companies to local companies was difficult with the company’s existing cost structure. In particular, deburring and inspection processes required a great deal of labor costs, with burrs removed with tweezers one at a time, and defects called “shots” identified. An increase in China’s minimum wages, newly obligated insurance, and other factors were expected to bring a further rise in labor costs. In advance of these events, the company needed to increase its technological level through automation, but Company α did not have the technical ability to solve this issue. They therefore proposed that headquarters should focus on the development to reduce costs through automation in light of these risks, and headquarters then developed the technology to automate.

Conclusion

From this case, the advantages of using H-CONEs can be summarized as follows.

First, issues at the ground level are externalized. H-CONEs speak the local language and understand the cultural background, thus, compared to Japanese P-CONEs, local employees find it easier to directly express dissatisfaction to H-CONEs. This makes it easier for issues to come to the forefront. When using interpreters, information such as dissatisfaction is either not conveyed at all, or made into filtered and indirect one. This may cause insufficient understanding of local issues. Of course, even Japanese expatriates can carefully observe local conditions and engage with employees to understand local issues (Oki, 2011, 2012). However, compared with P-CONEs, H-CONEs require less effort to clarify local issues.

Second, H-CONEs are employees sent from the headquarters and can thus leverage their relationships with headquarters in developing
the business. Unlike host-country nationals who are hired and trained locally, H-CONEs have a network of contacts in the parent country, and understand circumstances there. They are therefore able to develop the subsidiary’s business. In this case, the H-CONE understood that expatriations or visits from Japan cause headquarters costs to increase, and proposed reducing such visits as a way to reduce costs (this proposal was implemented). In addition, the H-CONE could understand the current headquarters business to convey what technological developments would be useful for expanding future headquarters business, even when those developments could not be realized locally.

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