CHAPTER SIXTEEN
Staffing to Control

One of the alternatives by which a company protects its foreign investment against risk and takes advantage of the opportunities is designing and implementing an appropriate staffing policy. This chapter focuses on the various options available to headquarters when staffing a subsidiary of an international joint venture.

16.1   Introduction

Much of this chapter deals with the options of staffing top posts with local or expatriate managers. This case makes the point that the actual role played by the expatriate manager in an MNC may not correspond to his/her role as specified formally in the organizational structure, and this suggests that the balance of authority between expatriate and locals may also be imprecisely specified.

   Policies for the use of staffing as a control mechanism have an economic perspective; expatriate staffing is usually more expensive than local staffing – although the company may have to pay large sums to retain a successful local manager if competitors decide to bid for his/her services. There are other factors associated with local and expatriate staffing that influence headquarters to consider the immediate cost of expatriation justified. All decisions regarding staffing have to be made in this light.

16.2   Bureaucratic and cultural control

Headquarters tries to influence the productivity and efficiency of its subsidiary by manipulating the organizational culture. Jaeger's model (*Journal of International Business Studies*, Fall 1983) maps two extremes in bureaucratic and cultural control styles. Make the point that although the model is more than 20 years old, it is still very useful – as is demonstrated by Harzing's adaptation (*Managing the Multinationals*, 1999).

The great majority of companies may use control styles that mix both cultural and bureaucratic controls; control styles may vary over time, and different mixes may be appropriate for different investments. The choice is influenced by the nature of the business, the experience of the staff, the competitive environment, technology policy, and the culture – although this may not necessarily be the most important factor.

16.3   Expatriate or local management?

This section focuses on issues associated with senior management staffing, and deals with the factors that decide whether it is preferable to use a manager expatriated from headquarters or a local. A wide range of factors associated with the environments of the two units, the industry, the strategic goals, the organizational cultures, and the national cultures of the countries of the investment and the MNC need to be taken into account.

16.4   Local managers

This section examines the question of whether to use expatriate or local top management from the point of view of selecting a local. A positive approach needs to be taken to questions of retaining a local manager, which means investing in training and maintaining an equivalence between locals and expatriates.

16.5   Staffing the IJV

This section deals with the particular issues of how the partners share control of an IJV by staffing. The notion that responsibilities can be duplicated in all functions may be superficially attractive but is impractical. In practice, each partner is likely to seek control of those functions in which it has particular interests.

A range of staffing pools is available. Make this point by asking the students to list these pools, then ask them what needs and loyalties representatives of each has. What might happen to each group on expiration of the project? This should make clear that the different pools have interests that are potentially in conflict. In the event of a dispute between IJV management and partners, each group contributed by a partner naturally protect themselves by supporting their headquarters interests.

Any IJV is likely to have a very unstable structure. The partners are differently influenced by their different shifting environments, and their changing and conflicting needs influence their needs to control.

B: Implications for the Business Student

(This section modifies the material on pp. 370–71 of the textbook.)

Research any projects established by your business school in partnership with a foreign business school (or other organization) and answer these questions.

1. What policies does your school adopt in order to control standards?
2. What policy does your school apply when staffing posts in these projects?
   – What factors decide which posts your school takes?
   – What factors decide which posts the partner school takes?
3. In each project, is the teaching syllabus decided by your school or the partner school?
4. In each project, which partner is responsible for recruiting students?
5. In general, what aspects of these projects cause most problems for your school? How might these problems be corrected?

C: Class Discussion Questions

1. What factors are likely to influence MNCs headquartered in your country when deciding between cultural and bureaucratic control mechanisms? Consider the cases of MNCs in a range of industries.
2. What problems might face companies headquartered in your country when making expatriate appointments?
3. What opportunities might your local managers enjoy when recruited by a foreign-based MNC? What problems might arise for them?
4. Under what circumstances might staff feel greater loyalty towards their headquarters than towards the IJV? How might any conflicts in interests (both within the individual and between individuals) be expressed?
5. How might a partner exploit the IJV in order to resolve staffing problems in its headquarters? What effect is this likely to have on its relationship with its partner?
6. What factors help or hinder attempts by IJV management to motivate IJV staff?
7. How do members of your community feel about working for a foreign-owned MNC? Are all foreign-owned employers viewed the same way, or are distinctions made between them? On what basis are distinctions made? (For example, reputations of the organizational cultures, industries, country of headquarters.) Where country of headquarters is a factor, how far does cultural stereotyping explain these perceptions?

D: Answers to the Exercise

This exercise shows how environmental factors (including culture) affect priorities in staffing an MNC.

In general, accept any answers that students can justify. The implications of each point should be spelled out. For instance: (ai) gives Ruritanians low needs to avoid

uncertainty. This implies that they have relatively low needs for close control (compared, say, with (bi), and assuming that protection of technology is not a significant issue) – hence local management is unlikely to be contested on this basis.

(aii) gives a new product. Does headquarters need to keep an expatriate manager in post in the marketing and sales departments, or post a new manager to take responsibility for the product? But (aiii) gives stability, implying that needs for experienced headquarters control is slight (compared, say, with (bii)). (aiv) gives a lack of trained local managers, implying both a need for expatriates and perhaps suggesting that any good local managers developed by the company might be attracted to competing organizations. This point might be taken as an argument for retaining Ruritanians at post; otherwise, promote Daranese and set the cost of securing and training new local managers needed against the savings made by repatriating Ruritanians.

E: Additional Exercise Material

This exercise shows how environmental factors influence an MNC's policy towards a subsidiary. Students work in pairs.

Review your answers to the chapter 16 Exercise. Assume that top management has adopted your proposal, and has decided that in at least one of the five functional areas currently managed by a Ruritanian, a Daranese national will be appointed to replace the expatriate in the top post.

1. Decide on *one* functional area in which a local appointment will be made.
2. Write a job description for the post.
3. You have been asked to review the applications made for the post. Two applications have been made by current members of the organization, and two are from outsiders. Decide who appears best qualified, on paper.

> *OTIS W.* – Male, 36 years old. Married, five children. University first degree in economics. Has worked for UD for 12 years, for four years as an accounts clerk, four years in sales as a junior assistant manager, and four years (in the functional area) as assistant manager. He has a wide understanding of all functional areas in UD. He has never traveled outside the country and does not speak a second language. Unlike most of his colleagues, he mixes well with Ruritanians. He is a "fixer," everybody's friend, and can motivate his subordinates. His outlook is practical. He has average intelligence.

> *MIRIAM X.* – Female, 38 years old. Divorced, no children. University first degree (history), and MBA, both at the University of Ruritania. She speaks Ruritanian and four other foreign languages fluently. After completing her MBA she worked for five years in a Daranese subsidiary of Ruritanian Oil, finally as director (in the functional area). Since then she has been employed in the National Bank of Darana as a departmental manager (in the functional area). Her family is connected to many powerful political families in the country. A warm personality and a good communicator. She is a very hard worker and methodical, but she does not have an original mind.

ERNSIE Y. – Male, 30 years old. Unmarried. University first degree in biochemistry. He has been with UD for only four years, for the first three as assistant manager (in some other functional area) and for one as assistant manager (in the functional area). Despite this short tenure, he is a rising star and sooner or later will secure a senior position – if not with UD, then perhaps with a competitor. His loyalty is questionable. He is highly ambitious, imaginative, and has a genius-level IQ – and knows it. Many of the "old-time" staff find him too abrasive and are worried that if he achieves real prominence in the company, he will make sweeping changes that could result in redundancies. He speaks fluent Ruritanian and one other language. He has traveled extensively in the region.

HUGO Z. – Male, 42 years old. Married, two children. School until age 14; professional qualifications in accountancy. He is from a poor family and at age 14 had to leave full-time education in order to support his family. He has shown remarkable drive and initiative; he taught himself Ruritanian from textbooks and studied in the evenings to pass Ruritanian qualifications (in the functional area). He has an exceptional record as an entrepreneur. Until now, he has worked for his own companies, and is very wealthy. He has connections throughout the local business world and has a reputation for integrity. He feels that he is at an age when he needs the security of working for a multinational. He has some overseas experience marketing his own products.

F: Test Bank

1. The aim of cultural control is that:
   a. The subsidiary should develop its unique culture
   b. The subsidiary should replicate headquarters' culture
   c. Training should be restricted to the application of written manuals
   d. The subsidiary should develop American values.

(Answer, b: pp. 353–4)

2. Typically, a subsidiary mainly controlled by bureaucratic systems:
   a. Develops strong loyalties with headquarters
   b. Develops weak loyalties with headquarters
   c. Does not become operationally efficient
   d. Incurs massive costs.

(Answer, b: p. 354)

3. The Sony and Matsushita acquisitions of Hollywood film producers were unusual because the two Japanese companies:
   a. Expatriated very few headquarters managers
   b. Depended on cultural control systems
   c. Expatriated many headquarters managers
   d. Expatriated many headquarters technicians.

(Answer, a: p. 355)

4. According to Harzing (*Managing the Multinationals*, 1999):
   a. Bureaucratic controls are more direct, formalized and explicit

    b.   Bureaucratic controls do not use manuals

    c.   Personalized controls do not exploit social interactions

    d.   Personalized controls are less informal and implicit.

(Answer, a: p. 355)

5.   An advantage of promoting a local manager to manage the subsidiary (rather than expatriating a headquarters manager) is that:

    a.   Headquarters' control is increased

    b.   Headquarters' organizational culture is more easily replicated in the subsidiary

    c.   The local can more easily communicate with politicians and business people

    d.   Communications between headquarters and subsidiary are improved.

(Answer, c: p. 357)

6.   Whether or not the MNC appoints a local top manager is influenced by strategic factors:

    a.   If the subsidiary tries to meet local tastes, an expatriate appointment is more likely

    b.   If headquarters needs to control production of a global product, a local appointment is more likely

    c.   If integration with other subsidiaries is a priority, an expatriate appointment is more likely

    d.   If integration with other subsidiaries is a priority, a local appointment is more likely.

(Answer, c: p. 358)

7.   Japanese culture has high needs to avoid uncertainty, and so it is not surprising that Japanese companies typically:

    a.   Expatriate headquarters managers to manage their subsidiaries

    b.   Appoint local managers to manage their subsidiaries

    c.   Appoint American managers to manage their subsidiaries

    d.   Appoint subsidiary managers recruited from other cultures with high needs to avoid uncertainty.

(Answer, a: p. 359)

8.   The concept of differentiated fit means that:

    a.   Headquarters maintains the same relationship with all its subsidiaries

    b.   The relationship is determined by local subsidiary factors

    c.   The relationship is determined by headquarters factors

    d.   Subsidiaries are mutually dependent.

(Answer, b: p. 361)

9.   Western multinationals with branches in Japan tend to employ:

    a.   More women than do Japanese companies

    b.   More men than women because men are attracted by the opportunities for long-term employment

    c.   More women than they employ in their headquarters

      d.   More women than men, because men do not wish to work for companies that employ women.

(Answer, a: p. 363)

10.   Headquarters retains the loyalty of local managers in the subsidiary by:
      a.   Rewarding them by criteria that recognize only their local expertise
      b.   Rewarding them by criteria that recognize both their contributions to the global organization and their local expertise
      c.   Rewarding them by the same criteria applied to expatriates
      d.   Rewarding expatriates by local criteria.

(Answer, a: pp. 363–4)

11.   In some traditional cultures, power and information is hoarded. This has the effect that:
      a.   A local manager is respected for not sharing information
      b.   Western training materials are immediately accepted
      c.   Headquarters managers cannot be expatriated there
      d.   Local subsidiaries based there usually fail.

(Answer, a: pp. 364–5)

12.   The local manager suffering from "Affiliate's Disease":
      a.   Expresses local priorities too stridently
      b.   Criticizes headquarters' messages without thinking about them
      c.   Uncritically accepts headquarters' messages
      d.   Is opposed to centralized headquarters control.

(Answer, c: p. 365)