Expatriates and International Assignments in the German Chemical Industry – The Organisational Perspective


PRELIMINARY DRAFT – WORK IN PROGRESS. DO NOT CITE.

Susanne Schmidt
Institute for Industrial Sciences, Ruhr-University of Bochum

Heiner Minssen
Institute for Industrial Sciences and Faculty of Social Sciences, Ruhr-University of Bochum

Abstract. The International Human Resource Management (IHRM) research on international assignments (IA) is characterised by a domination of US studies and a strong focus on multinational companies (MNC), disregarding that small- and middle-sized enterprises (SME) represent close to 90% of all firms in most industries. Our study addresses these shortcomings by providing data from the German chemical industry, a sector known for both its high degree of internationalisation and its large share of SME. We report on the organisational perspective on IA as derived from the results of a mail survey and expert interviews. The main findings are that IA are not the predominant choice with German chemical firms when going global, and that expatriation issues are often dealt with in a rather flexible, individualised way, particularly in SME. Our findings call for further research on the way SME approach the internationalisation of business activities and human resources.

Keywords: international assignments, expatriates, SME

* All correspondence to Susanne Schmidt, Institute for Industrial Sciences (IAW), Department of Work Organisation and Work Designing, Ruhr-University of Bochum, 44780 Bochum, Germany, fax: +49 234 3214118, e-mail: susanne.schmidt@rub.de
1. Introduction

Globalisation – often defined as a compression of time and space and an increasingly closer network of markets and individuals – affects all areas of society. From an economic viewpoint, globalisation is represented by the internationalisation of firms. New markets are being developed, production sites opened and linked worldwide. Trade liberalisations, the European Monetary Union, and democratisation processes in the emerging markets of Eastern Europe and the Asia-Pacific region facilitate the decision to “go global” not only for large, multinational companies (MNC), but also for small- and middle-sized enterprises (SME). Additionally, globalisation creates a huge competitive pressure, especially for those smaller firms that are suppliers for larger companies and find themselves forced to follow their major customers to new production sites abroad. Tighter home markets due to the entry of foreign competitors are another reason for firms to exploit new markets abroad. At the same time, growing foreign demand can trigger the decision to expand internationally. Finally, high expenditures for research and development of new products – a typical feature of the chemical industry – need to be offset and made worthwhile (Johansson 2003).

These different faces of internationalising business activities do not only require solid financial resources of firms. Success abroad is rather based essentially on the firm’s employee mobility and their ability to work in international contexts (Scullion/Brewster 2001) – internationally experienced employees with sufficient language skills and the willingness to relocate for several years are a clear competitive advantage for a company. Consequently, and with more and more firms participating in transnational business activities, the demand for interculturally competent employees is growing.

Due to the increasing relevance of the management and development of human resources in a transnational context, international assignments (IA) have become an important instrument of international human resource management (IHRM.). We define IA as the assignment of an employee to a foreign subsidiary, respectively agency of his firm. The assignee will receive his employment contract and remuneration from his firm – mostly the headquarter –, not from the subsidiary in the host country. An assignment

---

1 We define SME as firms with less than 500 employees. This definition is in accordance to the classification given by the German Institute for the Research on SME. Other common definitions include sales figures, or qualitative data such as ownership (see Günterberg/Kayser 2004).
will last two years minimum and is necessarily limited to a certain period of time. Usually it will not exceed a duration of five years, but longer assignments are possible. However, if an IA runs on a continuing basis, we would not consider the assignee as an expatriate, but as a migrant.

IA offer the chance to achieve certain business goals abroad, e.g. developing a new market, transferring management or technical know-how to a foreign subsidiary, or organise a specific project (Minbaeva/Michailova 2004), while at the same time developing an employee’s international orientation. However, IA do also represent a costly and potentially risky endeavour for a company. In the run-up to an assignment, a suitable employee needs to be selected, complex tax and social insurance issues have to be dealt with and individual remuneration packages have to be designed. In case of failure, customers could be lost, expensive projects endangered, and if the assignee finds upon return that his company cannot offer him a suitable position, and thus decides to leave, a lot of knowledge about the foreign culture, market and business contacts will be lost, too. Organisations will therefore have to weigh the pros and cons of an IA very carefully.

In line with this requirement, IHRM research has so far largely focused on the identification of critical points that can cause an IA to fail (Bhaskar-Shrinivas et al. 2005, Black/Gregersen 1991), respectively discussing personality characteristics that influence the initial motivation and positively affect the assignee’s performance abroad (Holopainen/Björkman 2005, Stierle/van Dick/Wagner 2002). Sophisticated suggestions have been provided for selecting assignees (Caligiuri 2000), conducting cross-cultural trainings (Waxin/Panaccio 2005), and designing repatriation programmes in order to lower turnover rates (Stroh/Gregersen/Black 1998, Hurn 1998). In this context, international career development issues have also been widely discussed (Banai/Harry 2004, Suutari/Brewster 2003, Peltonen 1997).

However, existing contributions concentrate predominantly on MNC based in the US, disregarding both the significant cultural differences between the US and the rest of the world, and the fact that it is not MNC but SME which represent a substantial part of all firms in most industries (Scullion/Brewster 2001, Günterberg/Kayser 2004). SME, however, do not have the same resources and capacities to realise sophisticated HR strategies as MNC do. This difference should significantly affect the way SME approach the subject of IA. We expect SME to have significantly less expatriates than larger companies, to support their expatriates less before and during an IA due to lower
financial and staff resources, and to be less committed to repatriation issues. As a contrary, we expect non-SME to have and act by clear HR strategies concerning IA, and to use IA more explicitly as a career development instrument.

In this context, Germany represents a good example for the analysis of the expatriation business in SME.

SME account for more than 95% of all German-based firms (Günterberg/Kayser 2004) and close to 50% of industry-wide sales. Within the German industry, the most important branches are engineering, automobile manufacturing, food, and chemical industry (Destatis 2003). Of these, the chemical industry has the highest rate of internationalisation (VCI 2005) which makes it a suitable industry sector for research on expatriation.

The aim of this paper is to undertake a comprehensive descriptive analysis of IA in the German chemical industry, focussing on the organisational perspective. In this endeavour, we analyse quantitative and qualitative data from a mail survey we conducted among 1311 companies of the German chemical industry, and from expert interviews we carried out with seven HR managers from selected companies of the chemical industry.

Specifically, the following research questions are addressed in this paper:

1. How important are IA for the chemical industry?

2. What are the major differences between SME and larger companies concerning the expatriation business?

Our analysis contributes to the existing literature in several respects. Firstly, we shift the focus from MNC to SME, thus providing a first insight into the way SME approach IA, and into possible differences between these two groups. Secondly, by using German data we extend the existing findings to a European context. Finally, our findings are part of a larger research project (funded by the German Research Association) which combines the organisational with the expatriates’ perspective on international assignments. This design allows us to approach issues like career development, socio-biographical patterns of expatriates, or the influence of organisational support on the assignee’s perception of the risks of an IA. Our findings on the organisational perspective represent the first part of this project; the second part, just having started,
will comprise biographical interviews with former expatriate managers from the German chemical industry.

The empirical findings from both the mail survey and the expert interviews suggest that the traditional expatriate is less prevalent in the German chemical industry than the high degree of internationalisation in this industry sector and the extensive literature on the subject might suggest. It is SME in particular that seem to use alternatives to IA; the larger the company, the higher the number of its expatriates. SME and larger companies do not differ significantly in their choice of selection criteria and general recruiting strategies, but larger companies seem to use more supporting instruments than SME. Findings from the expert interviews suggest that IA are generally managed in a flexible way, relying rather on personal contact and commitment than on abstract, “one-size-fits-all”-policies. Consequently, our findings call for further research on the way SME in particular approach internationalisation of business activities and human resources.

The paper is organised as follows. Section 2 introduces the research design and describes the data used in the empirical part of the paper. In Section 3, the empirical findings are presented. Section 4 concludes.

2. Research Design

The empirical study we are reporting on is part of a larger project designed to analyse both the organisational and individual perspective on IA. In this paper we present findings concerning the organisational perspective, reverting to a mail survey and expert interviews we conducted earlier this year. The major aim was to collect some basic data on the dissemination of IA in the German chemical industry and to get a general idea of recruiting, qualifying, supporting and reintegration strategies within the expatriation business. We designed a questionnaire which was sent to all 1311 firms that were a member of the German Chemical Association (VCI). According to the VCI, these firms represent close to 90% of all employees in the chemical industry in Germany.
The mail survey yielded a response rate of 32% (415 firms).

The questionnaire focused on the four topics “recruitment and selection criteria”, “organisational support before and during an assignment”, “qualification strategies”, and “reintegration after an assignment” with most of these questions being statements the respondent had to agree respectively not agree to on a seven-point scale.

As a second step we conducted expert interviews with HR managers from seven selected firms in order to get a more detailed view on the expatriation process. Here, we retained the four main topics “recruitment”, “support”, “qualification”, and “reintegration” as a thematic guideline. The firms were selected according to their size and the number of their expatriates as specified in their respective questionnaire. We interviewed three genuinely SME with three, respectively four expatriates, two non-SME with 20, respectively 43 expatriates, and two small companies which were the German subsidiary of MNC. These latter had three expatriates each. The managers were selected according to their job position – they had to be responsible for the expatriation process in their firm.

The questionnaire data was analysed using descriptive, correlation, and regression analysis statistics. The expert interviews were analysed using a descriptive method.

### 3. Results

#### 3.1. IA in the German chemical industry

One of the most striking results from our survey is the small number of firms that have expatriates. The following table gives an overview of our mail survey sample composition regarding the item “internationalisation of business activities”.

<table>
<thead>
<tr>
<th>internationalisation of business activities</th>
<th>number of firms</th>
<th>in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>no international business activity</td>
<td>88</td>
<td>21%</td>
</tr>
<tr>
<td>international business activities, but no IA</td>
<td>274</td>
<td>66%</td>
</tr>
<tr>
<td>international business activities and IA</td>
<td>53</td>
<td>13%</td>
</tr>
</tbody>
</table>

| total                                                            | 415             | 100%|
Merely 13% of all respondents said to have employees on IA, while 66% seem to be able to “go global” without sending their employees abroad. How do these companies manage their business activities abroad? There are several explanations for this.

Firstly, the number of expatriates in a firm positively depends on the size of the firm. SME do have significantly less expatriates than larger companies, which confirms one of our main assumptions. The relationship is investigated on our mail survey sample, using simple linear regression analysis. The estimates reveal that the assumed relationship is statistically significant with a coefficient of 0.012, indicating that an increase in the number of employees by 100 would increase the number of employees being expatriated by around 12. The estimated parameter, however, declines to 0.0083 if the major outlier is excluded from the analysis, suggesting that the genuine firm size effect on the number of expatriates might be smaller than 0.012. The following table summarises the results.

<table>
<thead>
<tr>
<th>independent variable</th>
<th>coefficient</th>
<th>standard error</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>number of employees</td>
<td>.0119367</td>
<td>.0012674</td>
<td>47</td>
</tr>
<tr>
<td>number of employees (outlier excluded)</td>
<td>.0082601</td>
<td>.0008352</td>
<td>46</td>
</tr>
</tbody>
</table>
This, combined with the fact that only 12% of our sample are companies with more than 500 employees, can explain the low number of respondents with IA to some degree. IA are a costly business, and for many smaller SME, expatriating employees is not an option.

Secondly, the convenient geographical situation of Germany allows firms to manage a number of their international activities without international assignments. Consequently, 73% of all exports of the German chemical industry go to European countries, making this region the home market of the German chemical industry (VCI 2005).

In line with that, recent studies (PWC 2005) also point out that alternatives to traditional expatriation are gaining increasingly more importance. While virtual assignments (Iten 2001) remain a domain of large companies, prolonged business trips and cross-border commuting are alternatives that also apply to SME. The findings from our expert interviews confirm this assessment, with a number of various arrangements which might very well also be found in those 274 firms that have no expatriates. Since these alternatives were also reported to be deployed for non-European destinations (one manager mentioned a high-frequency commuting arrangement to the US), this can partly explain how firms without expatriates manage their international activities overseas. (46% of the 274 non-expatriating firms in our survey said to have international business activities in the US, 30% in Latin America, 35% in Africa and the Middle East, and 54% in the Asia/Pacific region.)\(^2\) Since we constrained IA to a minimum length of 24 months, shorter assignments of 12-18 months drop out. Recent studies (PWC 2005) however point to an increasing trend of using short-term assignments instead of the traditional IA of three to five years. Due to cost reduction reasons, this trend might be especially relevant for SME.

Thirdly, there are clear differences between firms with expatriates and firms without expatriates concerning the type of international business activity.

The following diagram shows that those 274 firms which do not deploy expatriates rely predominantly on exports as an international business activity. Companies with IA,

---

\(^2\) percentages do not add up to 100% because we allowed multiple answers for this item.
however, engaged significantly more often in activities such as “establishing subsidiaries abroad” or “acquiring foreign firms”, which are typical tasks for expatriates.

![Graph showing comparison between firms with and without IA]

Finally, our interviews revealed another facet of going global without expatriates: business representatives, for example sales managers, were hired especially for particular foreign markets, and while they had their contract from the German headquarters, they had never worked in Germany before. Their asset was a profound knowledge of both the particular market and the language. The same idea, just the other way round, was mentioned by another two managers who reported to run their foreign subsidiary with local staff who were fluent in German, so communication with the headquarters would be no problem.

It thus appears that the traditional assumption of globalisation resulting in the increased use of expatriates is too simplistic and one-sided (Grainger/Nankervis 2001). Firms apply alternative solutions, such as the ones outlined above, to manage their international business activities. For any organisation participating in global business, flexibility is a major requirement, and naturally, this extends to HR issues as well.

We can conclude that IA are not extensively used as general in the German chemical industry; at least the traditional, long-term IA appear to be a domain only of the larger companies. SME seem to go for individualised, alternative solutions instead that better suit their business needs. This can include short-term assignments, cross-border commuting, increased use of local staff, or hiring internationally experienced employees especially for the management of a foreign subsidiary.
3.2. Differences between SME and larger companies regarding IA

We expected SME to differ significantly from larger companies concerning organisational support before and during an IA, qualification and repatriation programmes, and IA-related HR strategies in general. Our empirical findings support these assumptions only partly.

Organisational support and qualification of expatriates

Concerning organisational support at any stage of an IA, SME and larger companies do not differ significantly from one another. Our findings suggest that administrative and financial support are the predominant measures taken by both groups – over 90% of the responding firms in our mail survey provide these, regardless of firm size. Re-integration seminars are less popular; merely 26% offered this measure, again with no significant difference between SME and larger companies. The findings from the expert interviews concerning repatriation strategies suggest that either a “it-is-not-necessary”-attitude prevails, or re-integration does indeed not apply because all expatriates are localised. There is a slight tendency of the latter being typical for smaller SME, but more research is needed on this topic.

The major difference between SME and larger companies lies in the qualification of expatriates. Preparation seminars and look-see visits – considered highly relevant for the success of an IA (Waxin/Panaccio 2005) – are a clear domain of the larger companies. This difference is statistically significant. The expert interviews additionally revealed that non-SME offered intercultural trainings and look-see visits on a voluntary basis, while SME, especially smaller ones, proposed neither, because their expatriates already knew their future host country from prior business or other contacts. These findings suggest that SME, and especially smaller ones, tend to overcome shortcomings in financial and human resources by relying more heavily on those expatriates who know the culture and language of their host country well, thus not in need of expensive preparation and qualification programmes. This strategy points to a possible importance of self-selection in the process of recruiting expatriates.
Selection and recruiting of expatriates

In this part of the expatriation business, SME and larger companies do not differ significantly from one another at all. Regardless of firm size, a “high motivation for the assignment” (96%), “professional know-how” (92%), “sufficient language skills” (79%) and a “good compatibility of the assignment with family needs” (93%) were the four selection criteria in our questionnaire that clearly stand out. These findings are in line with the findings from the expert interviews. Professional know-how and knowledge of the local market, and sufficient language skills were the criteria almost every HR manager stated as important in selection. We consider this as the organisational answer to the risks of IA failure. If the expatriate is highly motivated to go abroad and speaks the local language well enough, the risk for an early termination of the assignment is low. Additionally, if the general arrangement of the IA is in line with the expatriate’s family needs, another crucial risk factor (Caligiuri/Hyland/Joshi 1998, Copeland/Norell 2002) ceases to apply. The questionnaire item “prior international experience” which we expected to be a relevant selection criterion, too, however yielded very mixed and rather negative results. 46% of the respondents rated it as a “rather unimportant”, respectively “unimportant” selection criterion, while only 14% regarded it as important – again there were no statistically significant differences between SME and larger companies. In the expert interviews, prior international experience was equally treated as rather unimportant. One manager pointed out that it was not considered as fundamental, but could doubtlessly be helpful for the expatriate manager.\(^3\)

This is an odd result, as one would imagine international experience to be a highly relevant selection criterion for potential expatriate managers, especially since intercultural problems are considered a major failure trigger in international assignments and it is furthermore an easy qualification to identify in a selection process (Takeuchi et al. 2005). Moreover, a “high motivation for the assignment” and “sufficient language skills” – characteristics that are easier to find in a person that has prior international experience – were rated as outstandingly important selection criteria.

How does this fit?

\(^3\) Interestingly, our interview partners from SME chose to speak of “knowledge of the local markets” instead of “international experience” which was the choice of words with the company HR managers.
Literature somehow suggests that there is a sophisticated recruiting and selection process for expatriates, justifying this assumption by referring to the high costs of IA, and the even higher costs of assignments that fail because the wrong employee was selected (Caligiuri 2000, see Harzing 1995 for the myth of high failure rates).

However, it seems that selection for IA very rarely follows straight set-down processes, even in MNC (Grainger/Nankervis 2001), but is – rather on the contrary – mostly a mixture of self-initiated assignments and a “who-can-do-the-job-best”-approach. This is also a clear result from our interviews, which supports other empirical findings on selection processes for IA (Harris/Brewster 1999).

This mixture might explain the low results on the importance of “prior international experience” from our mail survey. HR managers would not rule out a potential expatriate on the basis of a lack of international experience, if this is his only shortcoming and he is otherwise the best candidate available (“who-can-do-the-job-best”-approach). In this perspective, “prior international experience” is not a highly important selection criterion. “Sufficient language skills” however is, and it may serve as a proxy for international experience. Additionally, it points to the relevance of self-selection into IA, respectively self-initiated assignments. An employee who has a liking for East Asian cultures and has learned Chinese, is very likely to be selected for an IA in the firm’s Shanghai subsidiary, even if he has no prior international experience.

The dual and open character of the selection process, which all of the seven interviewed HR managers stressed, indicates that expatriates play a larger part in the design and development of their international career than literature suggests.

More research is needed, however, to examine the development of an intercultural orientation which seems to play an important part in the selection of expatriates.

4. Conclusions

This paper reports empirical findings of a study on the organisational perspective on IA and the current state of the expatriation business in the German chemical industry. The German chemical industry structure is characterised by a large share of SME with at the same time a high degree of internationalisation. This combination makes this industry sector an important area for research on expatriation, since the majority of the existing literature focuses on MNC which have a completely different structure and
resource endowment and are thus very likely to differ significantly from SME regarding the management of IA.

Analysis of the dissemination of IA shows that the traditional expatriate is not the predominant choice with German chemical enterprises when going global. This is partly due to a growing economic pressure on the industry in general, leading to an increased focus on cost reduction and flexibility, thus making the expensive long-term assignment less popular. The other reason for the low number of expatriates in our study is the large share of SME in the German chemical industry. SME have different business needs and different financial and human resource endowments as compared to MNC. Consequently, the HR management of their international business activities applies significantly more alternatives such as short-term assignments, cross-border commuting or prolonged business trips instead.

Within the expatriation business, things are dealt with in a flexible, but not necessarily unstructured way. SME and larger companies differ concerning qualification strategies, but otherwise share similar approaches.

Our findings suggest that the process of selecting expatriates is not confined to the organisation as represented by its HR managers, but that employees play a significant part via mechanisms of self-selection. This area needs more research, especially regarding the development of an intercultural orientation in employees (Tharenou 2002).

Altogether, the organisational perspective on IA in the German chemical industry is a flexible one, designed to meet both short-term and long-term business needs.
Literature


