The impact of emerging markets on staffing the global organization:
A knowledge-based view

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Abstract

As organizations become more global in their strategic orientation, the need for developing global managers becomes imperative. One of the distinguishing features of global organizations is to effectively manage global operations in a consistent manner but at the same time allow flexibility at the country level to effectively compete. Acquisition and sharing of tacit social knowledge necessary to work globally but with a contextual understanding of local markets require a unique set of management skills. The process of inpatriating host and third country nationals into the home country organization appears to hold significant potential in developing a pool of future global managers. This article presents a theoretical perspective to analyze the contextual factors influencing the staffing choice when to utilize expatriate and inpatriate managers in global organizations. © 1999 Elsevier Science Inc. All rights reserved.

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1. Introduction

Many experts thought that globalization was “approaching” the status of a strategic norm in the early 1990s, more recent evidence suggests that it is a strategic necessity in today’s business environment. Almost a decade later, there is a strong belief that markets and compe-
ition are viewed within an increasingly global context and that in the future much of this context will coexist in developing and emerging economies (Minehan, 1998). This increasing business globalization will necessitate significant adaptation of human resource processes and people, identifying those who can facilitate organizational adoption of global strategies while simultaneously responding to local markets/competition. The more geocentric the organizational strategic orientation, the more likely the need for a mixture of home, host, and third country nationals to compete successfully in a hypercompetitive global marketplace (Edström and Galbraith, 1994). Therefore, organizations must develop globally competent managers and protect them as core competencies, which allow the company to compete effectively in the global competitive arena (Minehan, 1998).

There is a growing consensus that organizations that compete globally will be dependent on the architecture of their human resources to differentiate their efforts against global and local competitors. The organization’s global Human Resource Management (HRM) architecture, reflecting the quantity and quality of global managers, may be one of the most critical resources of an organization’s capability to compete globally (Bartlett and Ghoshal, 1994, 1995; Pfeffer, 1994; Ghoshal and Bartlett, 1997). Therefore, developing an adequate supply of “transnational” managers, who can effectively manage across national and subsidiary boundaries, becomes paramount to global organizations (Gregersen et al., 1998). These sophisticated global managers must possess a broad set of competencies, such as having an external focus while simultaneously understanding corporate perspectives, cultural empathy, development of formal and informal network of relations, entrepreneurial motivation coupled with the ability to effectively manage diverse teams, and multitasking capabilities (Bartlett and Ghoshal, 1992; Quelch, 1992; Martínez and Quelch, 1996).

Some MNCs have experimented with assigning host and third country nationals, undersocialized at the firm level, to key managerial positions in new foreign subsidiaries, critical for firm growth. This has created a concomitant set of problems including: loss of subsidiary control, reduced key managers’ identification with the global organization, increased dependence on nonhome country managers, reduced opportunities for parent company national managers to gain global experience through international assignments, and increased complexity of human resource management tasks (Kobrin, 1988; Welch, 1994; Harvey, 1997a).

This article examines the theoretical and practical issues associated with the development of an evolving pool of global candidates—inpatriate managers. Inpatriation is the selective process of transferring host and/or third country national managers into the home/domestic organization of a multinational corporation (MNC) on a semipermanent to permanent basis (Harvey, 1993). Inpatriate managers are host country nationals who are formally relocated to the home country organization but perform as boundary-spanners to global operations. These individuals develop the systemic knowledge to implement global strategies and at the same time have the context-specific social knowledge to effectively adapt strategies to the local context of individual countries. Inpatriate managers’ career future is in the home country organization as MNCs attempt to increase decisional/cultural diversity in their management. These inpatriate managers are envisioned as firm-level strategic human capital that increases the global competitiveness of the organization (Harvey and Buckley, 1997).

The explicit objectives of the article are to (1) introduce the importance of emerging markets as the markets of the future firm growth and the need for managers to relocate to these markets; (2) propose a new theoretical perspective to explain the staffing choices between in-
patriate and expatriate managers in developed and emerging markets; and (3) build model of staffing strategy for emerging markets based upon the contextual host country factors. Each of these issues will be discussed separately, but they must necessarily be linked together to incorporate the relevant factors influencing staffing decisions relative to the assignment of expatriate and inpatriate managers.

2. The future of global business: Emerging markets

Emerging markets are thought to be “the economic engines for growth of MNCs in mature developed economies” (Garten, 1997b). The Department of Commerce in 1994 initiated the classification of “Big Emerging Markets Policy” identifying these countries as markets that will represent fast growing markets and as having the largest market potential in the 21st Century (Garten, 1997b). These emerging markets are characterized by lower levels of economic development but rapidly expanding population bases, economic growth rates in annual GDP of 5–10 percent, and an acceptable opportunity/risk ratio to attract investors (Garten, 1996, 1997a, 1997b; Arnold and Quelch, 1998). Ten emerging markets frequently identified as the most likely to impact global market demand are Mexico, Brazil, Argentina, Poland, Turkey, South Africa, China, India, South Korea, and ASEAN (e.g., Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam). By the year 2025, the world population is projected to total 8.3 billion people, or approximately 45 percent more than the current population of 5.7 billion (The State of the World Population, 1995; Garten, 1996, 1997a; World Population Perspectives, 1995;). The vast majority of this global expansion in the population base is expected to occur in emerging markets (Bridging the Gaps: The World Health Report, 1995). It is forecasted that in 2025 seven-eighths of the world population will reside in emerging markets.

As these emerging markets grow, it is anticipated that there will be a pent-up demand for both industrial and consumer goods and services. The market attractiveness of these countries will continue to escalate in the coming years. It is anticipated that many MNCs will develop strategies to gain first mover advantages in these critical future markets (Nakata and Sivakumer, 1995). These emerging markets have two common characteristics relevant to European and United States-based MNCs, those being significant differences in economic development and cultural distance between the developed and emerging countries. Therefore, it could reasonably be concluded that there will be an increasing need for managers willing and capable of managing in these culturally and economically distant countries. The organizational capability to contextualize business strategies to the local market conditions in these emerging markets will permit the development of a strategic thrust, which will differentiate the successful MNC from others who may pursue a more generic global strategy. Therefore, the key means for competitive differentiation in the 21st century could be the development and retention of globally effective managers rather than the more traditional means, such as technology, economies of scale, or financial strength used by many MNCs in the past (Moynihan, 1993; Ghoshal and Bartlett, 1997).

Given the anticipated change in context of global business (i.e., moving from formal, developed, and mature markets to informal, emerging, and culturally distant markets), value-adding utilization of the firm strategic human resource management system will likely
become an important asset to differentiate a MNC. In the past, when competing in mature developed economies, MNCs sought to differentiate themselves through the accumulation of assets to increase the efficiency of their operations (Geringer and Herbert, 1989; Sohn, 1994). In doing so, they were able to differentiate their products/services through price competitiveness. In emerging markets the context-specific social knowledge (i.e., the ability to understand and forecast the behavior of others in a different specific socioeconomic and cultural contexts) becomes the strategic value-adding mechanism to differentiate MNCs. It is hypothesized that social knowledge may allow MNCs to (1) selectively transact business with economically and culturally distant parties more effectively; and (2) increase their competitive advantage over MNCs that take a more efficiency orientation or generic global orientation to competing in economically and culturally distant countries (Sohn, 1994).

The linkage between human resource management and the strategic goals of an MNC is critical as the knowledge-intensive global economy emerges and the human capital becomes a competitive core competency that can be used to differentiate the organization from other MNCs (Galbraith and Kozanjian, 1986; Bartlett and Ghoshal, 1992; DeCieri and Dowling, 1993; Welch, 1994; Poole and Jenkins, 1996). Strategic international human resource management (SIHRM) focuses attention on building processes and procedures for utilizing personnel as a renewable competitive asset. In a recent survey of Fortune Global 500 firms, Arthur Andersen and Bennett and Associates found that 81 percent of the respondents felt their companies intended to expand into emerging markets (Expatriate Manager Programs, 1997). As a greater number of MNCs expand into emerging markets, the competition for managers with context-specific social knowledge of how to conduct revenue-generating business in these countries will steadily intensify. Managers who can effectively operate in economically/culturally distant countries will be one of the key differentiating resources for creating competitive advantage and ultimately success for MNCs in the global marketplace (Oddou and Derr, 1993; Frey-Ridgway, 1997; Harvey et al., 1999). The need for effective boundary spanners between the headquarters of MNCs in developed economies and their subsidiaries in emerging markets will be of primary importance due to the high economic and cultural differences (Tushman and Scanlan, 1981a, 1981b; Fennell and Alexander, 1987).

Given the growing importance of developing qualified global managers, researchers have attempted to identify the managerial competencies that are essential to effectively manage in a global context and in particular emerging economies, such as cultural awareness, developing a global (geocentric) perspective, heightened cross-cultural skills, that is, communications, learning, adaptation, ability to adjust to new cultural environments rapidly, equal and equitable acceptance of individuals from different cultures, emotional energy, ability to address cognitive complexity, psychological maturity and, in addition, personal characteristics, such as self-reliance, empathy, sense of humor, curiosity, and strong sense of self (Black and Stevens, 1989; Ghoshal and Bartlett, 1997). In an effort to delineate the “ideal” characteristics, the human resource managers are confronted with a paradoxical situation where the candidate pool osmotically approaches zero.

To effectively compete in a global marketplace, companies must develop a unique set of managerial skills to appropriately position the company in emerging markets. The resulting core competency of global companies rests on the local adaptation of a global strategy that is based on efficiency of action of contextual relevance to local consumers in developing coun-
tries. Such a distinctive corporate “signature” to act locally helps to insure local acceptance of products/services without reducing the efficiency necessary for global competition (Hall, 1993; Hamel and Prahalad, 1989; Harvey and Buckley, 1997).

The new country managers in emerging markets are expected to develop effective local strategies and embody (1) an external focus on local government relations; (2) cultural leadership; (3) social networking; (4) teamwork; (5) a keen understanding of the dynamics associated with the consumer and competitive environment; and (6) a high level of local social knowledge of the ways to effectively compete (Bartlett, 1986; Ghoshal and Bartlett, 1990; Sohn, 1994; Caligiuri and Stroh, 1995; Martínez and Quelch, 1996). If these “soft” skills, derived from the context-specific social knowledge, are becoming the key determinants of success for country managers in developing countries, are expatriate/home country managers from developed countries the only candidate pool best equipped to handle the contextualization of global strategies in emerging markets?

We feel that inpatriate managers may be more well equipped to address the unique issues associated with effective management in the context-sensitive emerging markets. When a normative comparison of expatriate and inpatriate managers is made in both developed and emerging markets, it becomes readily apparent that inpatriate managers have a distinct competitive advantage in social knowledge and resulting skills necessary to be effective in emerging markets (see Table 1). We, however, provide a theoretical perspective of knowledge-based theory on the use of inpatriate and expatriate managers in emerging markets below. We assume that the firm’s integration of the inpatriates’ social knowledge of the emerging markets to increase the common knowledge in the global organization provides the competitive foundation to adopt strategies that are most effective in these economically/culturally distant countries. The following section presents a model of global staffing based on the knowledge-based view of the firm.

The knowledge-based theory views the firm as an institution for integrating knowledge (Grant, 1996). Therefore, the focal variables of this theory are related to the coordination mechanisms through which the firm integrates the specialized knowledge of its individual members. Specific to this theory is the assumption that knowledge resides and is applied at the individual level. As organizational capability is the outcome variable of knowledge transfer and integration within the firm, this theory examines the structural choices that enhance organizational capabilities.

Emerging markets are characterized by context-specific impediments to knowledge integration and development of organizational capability for local responsiveness to market opportunities. The underlying foundation of this problem is the lack of individual specialized experiential knowledge about the dominant formal and informal institutions that govern the value-creation process in the emerging markets (Child, 1997). With the growth of global economic interdependence among national economies, the local contexts of the emerging markets have become so dynamic that the acquisition, integration, and sharing of knowledge about the specific local contexts have become highly tacit (Eriksson et al., 1997). This tacitness of the local contextual knowledge is particularly related to the implicit norms that govern relationships with local customers, competitors, suppliers, public officials, and other stakeholders. The tacitness of local knowledge is further reinforced by the equivocality of local legal, banking, political, and informational nuances (Barkema et al., 1996).
These contextual constraints in the emerging markets influence the “context-bound” rationality of individual organizational members who try to acquire local tacit knowledge (Nee and Ingram, 1999). In particular, the acquisition and internal transfer of local knowledge within the firm are highly limited unless effected by those who know both the local context and the routines of knowledge integration processes within the firm (Harvey and Buckley, 1997). The knowledge-based view of the firm addresses the issues of coordination in internal transfer of tacit and explicit knowledge within the firm (Szulanski, 1996). The tacit nature of local contextual knowledge in the emerging markets and the complexity of organizational structures and processes in global organizations are the main barriers to knowledge transfer. Therefore, consistent with the knowledge-based view of the firm, we need to examine the global staffing choices that reduce the barriers posed by the tacitness of local context knowledge.

The global staffing strategy leading to reduction or elimination of these barriers may significantly improve the efficiency and effectiveness of the global organization’s strategic thrust in the emerging market contexts. This knowledge-based view is consistent with the findings of the past empirical research (Inkpen and Beamish, 1997) that personnel transfer solutions are indispensable in cases of tacit knowledge transfer across borders, particularly in situations of high cultural and economic differences between home and host countries. The personnel transfer contributes to the emergence of common internal norms, which optimize the experiential learning curve benefits within the firm through the internal transfer of accumulated contextual knowledge about specific emerging markets.

A knowledge-based view of a firm’s global management staffing strategy suggests that human resource policies and practices must not be viewed as merely administrative procedures for managing human resources, but rather as valuable processes of knowledge transfer facilitation that develop human resources with unique competitive capabilities (Kamoche,
A fundamental premise of the knowledge-based view is that the characteristics of organizational knowledge are heterogeneous and therefore the organizational context, within which the knowledge transfer occurs, matters (Szulanski, 1996). The firm’s global management staffing strategy can contribute to a sustained competitive advantage through facilitating the acculturation of the sources of the host country context-specific knowledge that are unique to the organization relative to its human resource system and personnel and thus make the protection mechanism of knowledge-based rents. More specifically, these sources of context-specific knowledge facilitate the integrative process of creating a collective experience base and organizational learning capability that is difficult to replicate (Roth and O’Donnell, 1996; Taylor et al., 1996).

Both tangible and intangible dimensions of global staffing strategy are essential in developing a global knowledge personnel profile that can integrate the tacit knowledge about emerging markets. Tangible dimensions of global staffing strategy relate to the processes, procedures, and systems established to identify, select, train, motivate, and retain the “right” personnel in the organization that contributes to transferability, aggregation, appropriability, and specialization in acquisition and transfer of knowledge within the firm (Grant, 1996). In complement to tangible dimensions, intangible dimensions of global staffing strategy include corporate culture, learning capability, proactive innovativeness, and cognitive flexibility of the employees, which, in turn, contribute to the four mechanisms for integrating specialized knowledge: rules and directives (Demsetz, 1991), sequencing (Nonaka, 1990), routines (Pertland and Reuter, 1994), and group problem solving and decision making (Hutchins, 1991).

Whereas these mechanisms of knowledge integration are derived from individuals’ foci of knowledge, the effectiveness of the firm’s global staffing strategy depends upon the existence of common knowledge within the firm (i.e., the “intersection of their individual knowledge sets”; Grant, 1996:115). Grant (1996) posits that common knowledge “permits individuals to share and integrate aspects of knowledge that are not common between them” (Grant, 1996:116). Thus, different bases of common knowledge contribute to the firm’s knowledge integration process through development of common language, symbolic communication, and shared meanings among individual knowledge domains. Grant (1996) views organizational capability as the outcome of this process of individual knowledge integration. Therefore, the emphasis of the knowledge-based view of the firm is on the “role of the individual as the primary actor in knowledge creation and the principal reparatory of knowledge” (Grant, 1996:129).

From a global staffing strategy perspective, this individual and common knowledge base is developed by selecting and retaining global managers who have local social knowledge of the host country/market and at the same time have an understanding of the global function of the organization to allow coordination among the firm’s operating units. This dual stream of knowledge is essential in simultaneously coordinating global activities and acting at the local level to gain competitive advantage. Whereas expatriation-oriented global staffing practices value internal personnel as the human boundary-spanners of this dual stream of knowledge, those that are inpatriation-oriented focus attention on personnel external to the headquarters. Both pools of individuals can play a central role in implementing and maintaining distinctive competitive strategies by providing personal contacts that are the foundation of local relationships and market intelligence, which help to contextualize local strategies. A stock of
common knowledge built up and reinforced through constant application of specialized individual knowledge and adaptive learning over time of expatriates and inpatriates can be translated into a distinctive organizational capability (Snow and Herbiniak, 1980; Sparrow, 1994). Thus, these complementary characteristics of expatriates and inpatriates may become the ultimate competitive organizational capability—that of learning and acting on that knowledge.

Successful companies, however, must actively seek “creative destruction” of their existing common knowledge that is obsolete to retain competitive advantage in the marketplace (Schumpeter, 1934, 1942). Creative destruction of obsolete common knowledge is particularly important in the case of complex, heterogeneous, and equivocal emerging markets. The process of constantly learning and modifying human resource bundles relative to the efficiency and effectiveness of global staffing strategies yields dynamic organizational capabilities (Teece, 1988). Dynamic organizational capabilities emphasize the development of flexible global management and difficult-to-imitate combinations of specialized individual knowledge. A firm’s competitiveness in emerging markets requires timely response, rapid and flexible strategies, and management capability to effectively coordinate and redeploy internal and external human resources. Applying dynamic capabilities perspective to global staffing strategy focuses attention on the key role of global managers in the adaptation, integration, and recombination of knowledge to match the requirements of the global and local marketplaces (Dietrickx and Cool, 1989).

If enhancing and modifying scarce common knowledge effectively reflects a global dynamic organizational capability, then it follows that individual context-specific knowledge acquisition and learning become fundamental strategic issues in extracting value from opportunities in emerging markets. These are the key concerns of global staffing strategy, which directly relate to developing a stock of global managers with specialized knowledge and ability to learn more/faster than competitors’ global managers.

Developing a global staffing strategy that allows for utilization of dual internal and external, tangible and intangible, and local and global managerial resources relative to reducing the ambiguity of the emerging market environment adds an “action” dimension to the organizational knowledge integration process. In addition, it is recognized that these integrative strategies must be continuously challenged and “destroyed” to evolve into strategies that are more attuned to changes in the global and local marketplaces. Globally competent managers are central to the process of knowledge integration in that they are the ones that help recombine knowledge into organizational dynamic capabilities required to adapt firm strategy for competing effectively with global and local competitors (Zander and Kogut, 1995). Therefore, these managers must have comprehensive local knowledge insights to compete globally and at the same time have the specific specialized knowledge to execute contextual competitive strategies. Given this dual basis of knowledge integration, the dynamic knowledge-based view of the firm (Nonaka, 1990) suggests that the flow of human resources has to be reciprocal from headquarter to subsidiary or vice versa (Birkinshaw et al., 1998).

3. Model of management staffing strategy for emerging markets

The knowledge-based view focuses the primary problem that the firm must resolve is the development of dynamic organizational capabilities based on efficient and effective creation
and coordination of common knowledge shared among its members (Grant, 1997). This common or social knowledge is derived from integration of specialized knowledge of individual members who are assumed as primary creators and repository of knowledge (Poppo and Zenger, 1998). Both individual and common knowledge can be tacit or explicit. Explicit knowledge can be complex but is codifiable and teachable. The complexity of tacit knowledge, however, cannot be articulated and therefore is not codifiable and teachable.

By the use of modern means of telecommunications, explicit knowledge can be efficiently transferred, recombined and integrated across a MNC’s constituents. However, acquisition, transfer and integration of tacit knowledge is only possible by transfer and interaction of personnel across MNC constituents. Therefore, the perceived value of specific tacit knowledge for the firm is the central construct that determines the firm’s global staffing choices. Specific to a MNC’s strategic penetration into emerging markets, the perceived value of tacitness of local country knowledge for the MNC is the defining construct for the management staffing strategy for emerging markets (see Fig. 1).

3.1. Degree of the firm’s global HRM strategic orientation

The firm’s strategic global HRM system incorporates HRM issues, functions, policies, and practices arising from strategic activities of a global organization and affecting its goals and strategies (DeCieri and Dowling, 1993). The key antecedent to this process is the firm’s strategic global HRM orientation, deemed as the general philosophy or approach taken by the top management of the firm in the design of its overall strategic global HRM system, particularly the HRM system to be used in the firm’s multinational subsidiaries (Taylor et al., 1996). This orientation varies from ethnocentric, over polycentric, to geocentric scope to reflect the global mind-set of the firm’s top management team (TMT) (Murtha et al., 1998). Kobrin (1994) developed a measure for geocentric global mind-set to relate it to other variables of a MNC. Relative to emerging markets, we expect a more geocentric orientation of the firm TMT’s global mind-set to have a higher appreciation for acquisition and integration of tacit local country knowledge. Therefore, we propose:

P1: The degree of the firm’s geocentric strategic HRM orientation (i.e., geocentric global mind-set) will be positively related to the perceived value of tacit local knowledge for the firm’s strategy in emerging markets.

The context of economic and cultural novelty in emerging markets may influence the relationship between the firm’s global mind-set and the perceived value of tacit country context-specific knowledge. The country/regional characteristics can be captured by various variables, but past research has identified the overriding significance of (1) difference in level of economic development; and (2) cultural distance between home and host countries, as the most appropriate descriptors of the relevance of the local context for a global organization (Contractor and Kunda, 1998).

3.2. Level of economic development

The need to examine the level of economic development stems from the fundamental differences in how business is conducted within developed and developing countries (Rostow,
Fig. 1. Management staffing model for emerging markets.
The absence of business infrastructure and standardized processes and procedures for conducting business in many countries in emerging markets necessitates a high level of contextualization of business strategies (Bartlett and Ghoshal, 1992; Dadfer and Gustavsson, 1992). There have been a number of classification schemes developed to categorize economic development. But, most recently, the World Bank has developed a widely accepted classification schema. The main criteria used by the World Bank is gross national product (GNP) per capita. Every world economy is classified as either low income economy—less than $675 per capita; middle income—income of more than $675 and less than $8,356 (and within the middle-income category of $675 to $2,695 as lower middle income); or high income economy—per capita of greater than $8,356 (World Population Perspectives, 1995). Low- and middle-income economies are frequently referred to as “developing countries.” The World Bank classification is further extended to geographic areas and by export product categories. In this way, each country may be viewed from both internal economic perspective and an external geographic/economic perspective relative to other countries in a region and their exports to the rest of the world. In effect, a level of sophistication of business infrastructure can be derived. Hence, the greater the economic distance between the home and host countries, the more difficult the transacting of business for non-national managers. The contextual nature of business in developing countries requires an in depth understanding of “how businesses work.”

3.3. Cultural distance/novelty between host and home countries

The concept of cultural distance has been analyzed from a number of viewpoints (Hofstede, 1980; MOW International Research Team, 1986; Trompenaars, 1993, Gannon, 1994). Each of these approaches has attempted to identify various dimensions of culture that can be used to classify cultures into similar categories/groups. The most frequently used classification mechanism that was developed by Hofstede (1980) uses four primary dimensions of culture: those being (1) individualism-collectivism; (2) power distance; (3) uncertainty avoidance: and (4) masculinity-femininity. The basic implication of this factorial scheme suggests that the greater the cultural difference/distance between home and host countries, the more difficulty home country nationals have in adjusting to the host culture. As the cultural distance between two cultures increases, tacit local knowledge may become perceived as more important for managing in that host country. In other words, the need to have culturally attuned tacit local knowledge is accentuated in culturally distant countries.

The interaction of the two key contextual variables (the difference in the levels of economic development and cultural distance between the firm’s home country and the host emerging market country of its subsidiary) may influence the relationship between the degree of the firm geocentric mind-set and the perceived value of tacit local knowledge. When both economic level difference and cultural distance are low, the contexts of home country and host country are similar. The contextual similarity implies that the firm TMT will perceive low value of local tacit knowledge for the firm. However, if the contextual difference is high (both in economic difference and cultural distance dimensions), then host country context matters to the firm TMT to perceive a high value of tacitness of local knowledge. Therefore, we propose:
P2a: Low difference in economic development and low cultural distance between home and host countries will increase the association between the firm TMT’s global mindset and the perceived value of tacit local knowledge.

P2b: High difference in economic development and high cultural distance between home and host countries will reduce the association between the firm TMT’s global mindset and perceived value of tacit local knowledge.

3.4. Equivocality of subsidiary performance goals

As organizations become more global in their operations, the concern for coordination of resources within the global organization network increases. During international and multinational organizational phases of organizational development, controlling resources centrally is preferred to improve the coordination of these assets to maximizing usefulness (Caves, 1982). As the global organizational concept evolves, individual managers are provided the opportunity to maximize resource utilization locally while coordinating asset flows between units increases the degree of a subsidiary goal equivocality. The concept of subsidiary performance goal equivocality relates to the differences in expectations between global entities based upon local conditions but framed by network expectations of “acceptable” performance for each network unit. The degree of equivocality in subunit performance goals is composed of four items: (1) the degree of understanding of the opportunities facing the unit in its local environment; (2) management’s experience in competing in the local market; (3) the length of time the organization has been actively competing in the local market; and (4) the motivation for entering the market and the resulting competitive posture developed over time (Roth, 1995).

The greater the latitude in goals, that is, high equivocality, the more experience and insight is needed to form contextual strategies and competitive positioning that is appropriate for the local market. At the same time, the unit manager must assess the global network goal expectations and remain consistent with these expectations. The less that is known about the local market or the greater the uniqueness of the local consumer/competition environment, the greater the discretion in goals and strategies the manager will be allowed. This latitude is frequently embodied in the CEO and top management of the operating unit (Roth, 1995). Therefore, we propose:

P3: In emerging markets, equivocality of subsidiary goals to corporate management is positively related to the perceived value of tacit local knowledge for the firm.

The importance (i.e., perceived value) of having contextual tacit local knowledge may influence the firm’s management staffing choices for emerging markets. The value of tacit local knowledge comes from knowing what and how to manage in a host country and allows the manager to (1) predict how local internal (employees) and external (customers) stakeholders are more than likely to act; (2) relate observed behaviors to how locals interpret the present state of local context; (3) share the locals’ frame-of-reference relative to perceived/actual behaviors; (4) capture and understand (decipher) verbal and nonverbal communications from locals (Sohn, 1994). Tacit local knowledge also helps to insure the most effective utilization of resources in a local context. Less bureaucratic and/or formal controls will be
needed from headquarters, thereby, reducing the level of surveillance necessary to insure compliance with state goals and strategies.

As illustrated in Fig. 1, management staffing decisions in emerging markets could be influenced by the value of tacit understanding of the internal and external environments that the manager is to be assigned to, as well as by that of the possession of the tacit local social knowledge of each candidate pool. The lower the perceived value of tacit local knowledge for the firm, the less individual tacit social knowledge or experience is needed and, therefore, the more appropriate is the use of expatriates. But, when the value of tacit local knowledge is perceived as high for the firm, the manager needs contextual individual tacit knowledge to effectively manage in that environment, and therefore the inpatriate pool of candidates appear to have a competitive advantage. As the goals of the host country subsidiary are less well known and are designed to be opportunistic to the local market, the contextual knowledge of the inpatriate becomes an important selection criterion. Therefore, we propose:

$$P_{4a}: \text{If the value of local tacit knowledge is perceived as high by the firm management, then the preferred management staffing strategy for emerging markets will be inpatriation.}$$

$$P_{4b}: \text{If the value of local tacit knowledge is perceived as low by the firm management, then the firm’s preferred management staffing strategy in emerging markets will be expatriation.}$$

The model predicts that in emerging market environments, in which tacit local knowledge is valued, global organizations will use the inpatriate model of staffing. Expatriates are hypothesized to provide expertise in economies that have less novel cultures and where the goals of the organization are well articulated. These two pools of candidates contribute to knowledge integration in the firm and to development of its dynamic capabilities given the candidates different individual bases of knowledge. One specific advantage to the global organization can be inferred from this model: On the one hand, inpatriates can have extended tours of duty or multiple assignments, thereby improving their expertise and skills to more effectively manage the assets of the global organization, thus being renewable global human resources. On the other hand, expatriates look at their three- to five-year assignments as one time requirement to earn the international credentials and do not expect to be reassigned internationally thereby, becoming nonrenewable resources for the globalization of the firm’s activities. In balance to this inpatriate advantage, expatriates face lower entry barriers to become top management team members.

### 3.5. Control variables

De Cieri and Dowling (1993) have provided a comprehensive review of variables affecting international human resource outcomes. These variables are grouped as (1) endogenous (firm size, strategy and structure, firm life cycle and international experience, foreign entry mode, and interorganizational networks); (2) exogenous (industry structure, industry life cycle, and external interorganizational networks); and (3) country-specific contextual variables (political risk and GDP dependence upon FDI). We have included these variables as control variables in our model.
4. Assessing the value added of inpatriate managers in emerging markets

Global organizations have a long and rich administrative heritage in developing organizational capability of integrating individual knowledge of expatriates. However, integration of individual inpatriate knowledge is a new and emerging organizational capability. As a mechanism for developing a flow of globally competent managers between subsidiaries and the headquarters, inpatriation is a growing but empirically unresearched global staffing practice. Therefore, the use of inpatriate managers presents a unique set of problems for MNCs who are bringing these individuals to their home country. For integration of inpatriate specialized individual knowledge, a flexible, dynamic human resource system that can accommodate the differences presented by inpatriate managers is necessary. To better understand the integration of inpatriate knowledge, we present a discussion of inpatriation, as a global staffing strategy, within the knowledge-based theory perspective.

Past research has proposed that a proactive transfer and integration of inpatriates to accelerate globalization within an organization is necessary given a majority of future market growth will come from emerging markets (Harvey et al., 1999) (see Fig. 2). It is anticipated that MNCs will use a declining number of expatriate managers in emerging markets in the future. This belief is based on five critical issues evidenced in the past research: (1) expatriates’ cost/failure/performance record is questionable; (2) expatriation will become more complex due to more dual-career couples and unadapted policies for female expatriate candidates; (3) the future emerging markets will be more difficult to attract expatriates to serve in (higher refusal rates), and these countries will present greater adjustment problems due to cultural novelty and low level of economic development (higher failure rates); (4) inpatriate managers have the cultural/economic background to more effectively address the problems in emerging markets; and (5) global competitors have and will continue to adopt a multicultural perspective to the global operations (Bartlett, 1986; Bartmess and Cerny, 1983; Kamoche, 1996; Reynolds, 1997; Harvey, 1997a, 1997b; Dowling et al., 1999).

In an effort to provide home country managers with an opportunity to develop knowledge about host country markets that can be utilized and become common in a global organization, an MNC will continue to view expatriate managers as effective candidates particularly in developed countries. Due to the high level of economic development and low cultural distance between home and host countries, expatriate adjustment will be easier, and therefore the probability of attracting/retaining expatriate managers will be higher. Utilizing expatriates also helps to insure that individual specialized knowledge of domestic managers can play a significant strategic role in the future of the global organization. If domestic managers were not expatriated, over time, the organization would become control dependent on the inpatriate managers for its common knowledge of global business (Kobrin, 1988).

The need for a common knowledge base becomes more apparent when one considers the influence of top management’s background and the resulting dominant logic that drives organizational strategic orientation (Murray, 1989; Michael and Hambrick, 1992; Wiersema and Bentel, 1992). The “dominant logic” (i.e., the attitudes, beliefs, and mind-sets of top management teams) strongly influences the strategic thrust of the organization (Prahalad and Bettis, 1986). In addition, career experiences beyond functional orientation can be expected to have a significant influence on organizational outcomes (Hambrick and Mason, 1984). If domestic
managers were not allowed to expatriate and acquire specialized knowledge about developing markets, their contribution to organizational globalization would be limited. The expatriates’ contribution to the knowledge diversity in global management teams provides the referent control factor that most headquarters management team prefer when shifting their global mind-sets (Dadfer and Gustavsson, 1992; Grandstrand et al., 1993).

Inpatriates’ role in the globalization of the management of the organization entails developing innovative global staffing strategies to compete in emerging countries. When a group of inpatriate managers is selected and transferred to the headquarters of the global organization, these inpatriates play an important “linking pin” role between the domestic headquarters and subsidiaries in emerging markets that the organization is attempting to penetrate. These inpatriates perform a boundary-spanning role between headquarters and the foreign subsidiary and their cultures (Thomas, 1994). The organizational position of the inpatriate managers provides knowledge appropriability to the firm expansion efforts in emerging markets given their tacit knowledge of these countries. The inpatriate managers, though formally located in the domestic organizational structure, make frequent overseas trips to emerging markets to provide direction and facilitate tacit knowledge transfer to create common knowledge about emerging markets. By locating the knowledgeable inpatriate managers in the home country, top management does not experience the loss of control generally felt and partially experienced when using host country nationals located in their own country (Sohn, 1994). In addition, when the inpatriate managers are domiciled in the domestic organization, the process of both multiculturalism and transculturalism can be activated in the MNC. By utilizing their subtle cultural input, the organization has undertaken the first strategic step in developing a multicultural management orientation and global learning organization needed to compete effectively in the global market (Nemetz and Christensen, 1996; Aguirre, 1997; McMillen et al., 1997; Reynolds, 1997).

Fig. 2. Interactive decision matrix: country/pool of candidates.
Inpatriate managers also can provide invaluable specialized knowledge input about human resource function in emerging markets. Inpatriates can provide accurate advice on the adaptation of technical dimensions of the human resource process, that is, selection criteria, compensation plans, performance evaluations, and training/development for host country nationals. They also can provide a means for transferring the appropriate dimensions of the home organization’s culture to the host country subsidiary. The culturally sensitive “exporting” of corporate culture (i.e., roles, norms, values, and climate) to subsidiaries in emerging markets allows control to be exercised in an acceptable and effective manner (Schein, 1983). Rather than enforcing an “outside” organizational culture, the inpatriates use insights about the host country culture to allow the organizational climate in a specific subsidiary to evolve over time.

The primary means to culturally embed concepts, processes, and strategies in the emerging market subsidiaries becomes the role of the inpatriate managers, who will more than likely and more readily be accepted by the host country nationals than expatriates. The cultural embedding mechanisms believed to be most effective are: (1) the issues the inpatriate manager pays attention to, measures and controls; (2) how the inpatriate manager reacts to critical differences between the two organizational cultures (home/host country); (3) the inpatriate providing a role model (mentoring) for other host country nationals; (4) inpatriate manager’s operationalization of rewards and status to host country nationals; and (5) inpatriate establishing operating criteria for recruiting, selection, and promotion of host country nationals (adapted from Schein, 1983). This cultural adaptation of the home country organizational culture to subsidiaries is a critical factor in increasing the functional consistency or organizational fit and flexibility among the various organizational units. The fit and flexibility establish the interunit linkages and balance the needs for subsidiary autonomy (cultural identity), coordination (interrelationships between organizational units), and control (home management governance) for the purpose of increased competitiveness in the emerging markets (DeCieri and Dowling, 1993).

Inpatriate managers also could provide mentoring to high potential managers from emerging host country nations to insure a succession plan when new inpatriate managers are moved into the home country organization. It is important for a career path to be established for inpatriate managers that allows them every opportunity to become an integral component of the home country organization. To fully benefit from the multiculturalism and knowledge integration created by the inpatriate managers, the firm must insure that they are viewed as a part of the core global strategic management team and not as peripheral (Harvey, 1997b). This practice opens a career path for high potential host country nationals to become future inpatriate managers.

5. Conclusion

As globalization becomes an explicit goal of more organizations, a concerted organizational effort must be made to insure an adequate number of qualified global managers is available to implement such a strategy. The shift in strategic focus from multinational to global has significant ramifications in global human resource management (Bartlett and Ghoshal, 1992; Ghoshal and Bartlett, 1997). Identification of potential candidates for global assignments necessitates rethinking the position requirements relative to those used in a pre-
dominately expatriate-driven systems. To accomplish and maintain dynamic capabilities in the global arena, managers must understand the global imperatives of the network and at the same time, have the contextual social knowledge to adapt to local conditions dictated by the environment (i.e., consumers, competitors, suppliers, and government). By including inpatriation as an innovative staffing practice file global organization opens up a strategic option that fulfills the need for social knowledge in global decision making (Nahapiet and Ghoshal, 1998), which is particularly relevant to organization’s penetration into emerging markets.

Globalization will require significant modification to many functional areas within MNCs. One of the most important shifts will be in identifying, selecting, and training managers capable of managing globally while competing in local markets (Ghoshal and Bartlett, 1997). Inpatriation appears to be a means to integrate multicultural diversity into management teams while providing a means to use both internal and external resources in a dynamically competitive manner. Maximizing the desired benefits of a global organization’s internal/external resources is a necessity to effectively compete against global competitors. Dynamic capabilities help to insure consistency globally while allowing internal strategies to be developed to meet local market demands.

In this article, we have introduced a new theoretical perspective on the firm-level global staffing strategy—a knowledge-based view of the firm. Focusing on the perceived value of tacitness of host country knowledge for the firm, we have developed a theoretical model of firm-level management staffing choices for emerging markets. Our model shows that the host country contextual factors influence staffing choices.

Future research should focus on empirical testing of the proposed model. The model also may be expanded by incorporation of host country policy variables (transition/nontransition economy, transition dynamics, corruption index, diversity measure, etc.). Another model expansion may incorporate organizational capability in the emerging markets.

References


